THE CHINESE TRADE - AID - INVESTMENT NEXUS

Impact on sub Saharan Africa, European reactions

Jean – Raphaël Chaponniere, Asia Centre, July 2012

In less than ten years, the irruption of China in sub Saharan Africa (*thereafter, Africa*) has shaken the legacy of half a century of close relationships between Europe and its former colonies and is considered as one of the most important geopolitical phenomena of our time (Shin, 2012). If the Chinese engagement in Africa is not new, it took a new turn in the 2000s with the multiplication of high profile Chinese visits and the intensification of economic relation.
This paper analyzes the Chinese trade – aid – investment nexus and its impact on Africa as well as the reactions of European countries. If the analysis of trade relations can be based upon robust statistics, it is not the case for investment and aid which rely on shakier grounds.

I CHINA IS THE LARGEST TRADING PARTNER OF AFRICA

There is a stark contrast between the growth patterns of Africa and China. When African countries gained their independence in the 1960s, their per capita income (in purchasing power parity) was significantly higher than China's. As Chinese growth picked up in the eighties, Africa experimented a period of stagnation that ended in the mid 1990s. Its recovery (Radelet, 2010) was accompanied by an intensification of the China Africa trade as Chinese firms were quicker than European in detecting the African revival (Grimm, 2011). In 2012, the EU debt crisis is less a concern for African economies than the slowing down of the Chinese economy.

The spectacular growth of the China Africa trade

Between 2000 and 2012, China-Africa trade increased twelve folds has reached 140 billions (Figure 1). During the world crisis, Chinese imports contracted less severely than US and China became Africa's main trading partner on a country basis and the difference with UE narrowed (Figure 1). China Africa trade increased by 50 per cent since 2008 while UE –Africa and USA – Africa are slightly over their pre crisis level. China's share of African imports is 15 % while its share of African exports 17%.

Figure 1 : Bilateral trade (imports plus exports) of Sub Saharan Africa with China, USA, UE 2000-2012 (last four quarters)

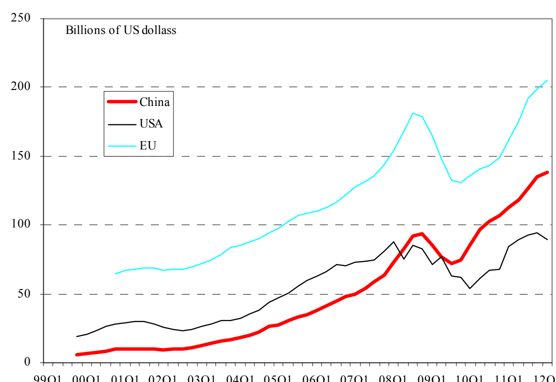
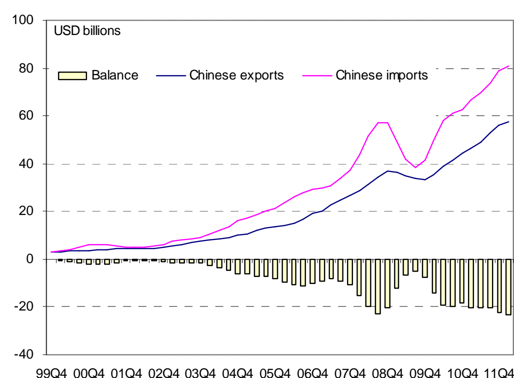


Figure 2 : Exports, imports and balance of trade between China and Sub Saharan Africa 2000-2012 (last four quarters)



Source : Global trade atlas

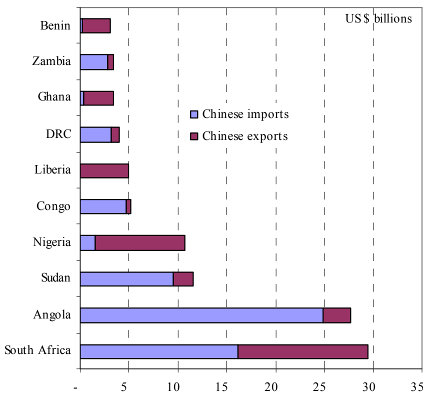
Oil, ores and forest products make up 80 % of Chinese imports but the structure of US, UE, Japan or Korea import from Africa is also characterize by a large share of natural resources. However imports do not make up the lion'share of the China Africa trade as Chinese exports to Africa increased in line with imports (Figure 2).
One should not underestimate the significance of the African market for China. While the 52 African countries absorb less Chinese exports than South-Korea (respectively 3% and 4,3%), a detailed

analysis reveals that, seen from China, the relative importance of the African markets increases with the sophistication of the products : in some instances (telecommunications) Africa served as a test ground for China.

Consequences for African countries

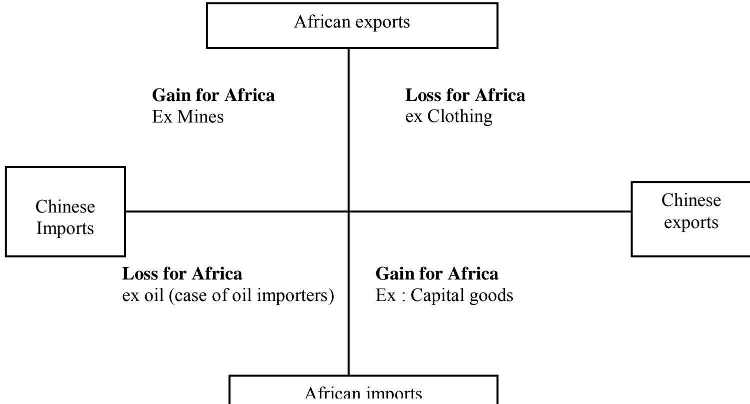
As China runs a deficit (Figure 2) in its trade with Africa, Chinese present it as a “win-win” operation. But if oil and metal ores exporters enjoy a bilateral trade surplus, forty African countries run a deficit. The largest 10 trade partners account for 89% (71 %) of Chinese imports (imports) from Africa (Figure 3).
Drawn from a conference by Raphael Kaplinsky, Figure 4 synthesizes the impact of this trade on African economies. Thus, in the case of products highly demanded by China and exported by Africa- eg mining ore -, this trade is a gain for Africa , as it is also in the case for products – eg equipment - where Chinese strength coincide with African demand. But when Chinese exports compete with African exports - textile - the impact is negative for Africa as for oil which is highly demanded by Chinese and African.

Figure 3 : China main African trading partners (2011)



Source : Global trade atlas

Figure 4 : Impact of China trade on African economies



Source www.open.edu/openlearn/society/.../meet-professor-kaplinsky

Chinese demand reinforces the “primarization” of African economies

The percentage of African minerals and oil exported to China rose from respectively 7 % and 9% (2000) to 40% % and 21 % and during this period UE’ share of Africa exports declined from 47 % to 26 % and from 18 to 16%.
Chinese demand has contributed to the rise of the prices of raw materials and it allowed African countries to diversify their export markets. However, this geographical diversification was not associated with a product diversification. On the contrary, the share of traditional products in African exports increased and the share of manufactured goods decreased. Trade with China has reinforced the “primarization” of African economies.

Impact on local market

Even if Chinese products are derided as inferior (“Fong-Kong” merchandise[1]) and there are instances of dangerous counterfeiting (milk products), by and large the entry of low cost consumer goods has been positive for African households while the availability of Chinese equipment lowered the investments cost in Africa. In spite of documented cases of resistance and adaptation (Mc Cormik,

[1] Terence McNamee : The real frontline of the Chinese in Africa Financial Times May 7, 2012

2011), Chinese competition has been detrimental to African labour intensive industries as well as handicrafts. It led to the closures of factories in Kenya, Nigeria and South Africa which obtained that China limits its exports. This challenge led P Colier (2009, page 169) to advocate for a temporary protection of Africa from Asia.

Impact on third market

Chinese and African products rarely compete on the same market at the exception of textile. In 2000, the US African Growth and Opportunity Act (AGOA) gave preferential access to African exports with liberal rules of origin to "made in Africa" textile as it authorized imports of garments made from non-US cloth. This led Asian investors to invest in several African countries where they engineered an export boom– from US$ 730 millions in 2000 to 1,7 billions in 2004-. As the liberalization of the textile trade in 2005 opened the markets to China, the boom ended and according to US ITC, US garment imports from AGOA was half their 2004 record in 2011

European reactions

African markets were traditionally the preserve of European and, as it instilled more competition the entry of Chinese goods aroused a flurry of critics. Ironically, a survey of previous reactions, show that the same critics were addressed to Japanese exports to Africa in the 1930s (Chaponnière, 2012).

European disengagement

The increasing role of China is not a mere reflection of its importance in world trade. Indeed the Chinese export intensity[2] to Africa increased during the last decade and stands at 1,4 (2010) while during the same period, UE – Africa export trade intensity declined to 0,9 (2010). Thus, Chinese entry in Africa coincided with the disengagement of Europe which can be explained by the enlargement to Eastern Europe that began in 1989 and the lagged response of European firms to the African economies revival (Ray, Severino, 2010).

From complementarities to competition

Even though China tried early on to diversify its exports to Africa from sundry goods to equipments, their structure has long been more complementary than competitive to European exports. It changed in the 2000s as their surge was accompanied by a rapid diversification that surprised European. In 2011, consumer goods account for 20 % of Chinese exports to Africa while the share of both intermediary products and equipment is 40%. Analyzing the technological content of African imports, a report (Minefi, 2012) found that 69 % are middle technology products (transport equipment, electrical machinery, metal products) which correspond to the bulk of Chinese exports. China has taken market share to European firms which were accustomed to realize substantial margin on their traditional markets.

II CHINESE OVERSEAS DIRECT INVESTMENT

Chinese overseas direct investments (ODI) started before the adoption of the "Going out" strategy (1999) and surged during the last decade. According the World investment Report (WIR, 2011), China is the 4th largest investor abroad in flow and 16th in stock (297 billions) in 2010.

Although China adopted international standards to record ODI, its statistics remain notoriously unreliable : thus "round tripping"[3] may represent a substantial percentage of both inflow and outflows ; Hong Kong, Virgin Islands and Caymans are treated as final destination while these tax havens are spring board to other destinations.

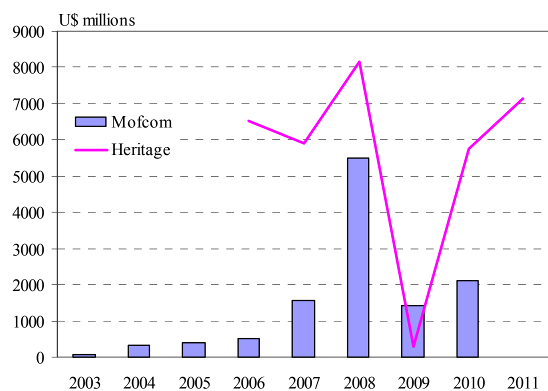
[2] The export intensity is the ratio of the share of Chinese exports to Africa to the share of Africa in world imports.

[3] In a typical "round trip investment", a Chinese resident will establish an offshore holding company, and use it to control a Chinese company by either direct acquisition or captive contractual arrangement

Chinese investments in Africa

According to Mofcom, Chinese investment stock in Africa rose from 0,5 billion (1,5 % of total) in 2003 to 11,6 billions (3 % of total) in 2010 and, according to WIR, this represents 3 % of the stock of foreign investment in Africa. Considering the shortcoming of Chinese data, these statistics under estimate African presence and alternative source must be used.

Figure 5 Chinese investment in Africa



Source : Mofcom,Heritage (global tracker july 2012)

Table 1 : Stock of Chinese ODI in Africa

MOFCOM		HERITAGE	
	Amount	country	amount
South Africa	4 153	South Africa	8240
Nigeria	1 211	DRC	7170
Zambia	944	Nigeria	5240
Congo DR	631	Niger	5180
Sudan	613	Sierra Leone	1750
Niger	379	Uganda	1450
Ethiopia*	368	Ghana	1200
Angola*	352	Cameroon	1040
Tanzania	308	Angola	730
Mauritius	283	Zambia	610
Largest 10	9 242	Largest 10	32610
Total	11 678	Total	33280

- Host countries balance of payments statistics are only available in the case of South Africa which is the largest recipient of Chinese ODI. A comparison between South Africa Reserve bank and Mofcom data by Guelb (2011) revealed large discrepancies for 2007, which diminished in 2009 and 2010 (US 4 billions, Mofcom and 5 billion SAR). For other African countries, foreign investment data which are produced by investment promotion centres, are based on projects which are realized over a certain period of time. They are not directly comparable to Chinese datas as they add equity and debt. Moreover they may suffer from the same flaws as they often fail to give the origin of investment made through tax havens.
- The China global tracker database created by the Heritage foundation offers an alternative source[4]. It collects (and checks) the announcements of large (over US$ 100 million) equity financed projects by Chinese firms. Their cumulative amount in Africa between 2005 and 2011 is US$ 33 billions. These data differ from FDI as these large projects necessitate some years to be implemented but they could be considered as "leading indicators". They underestimate the number of Chinese ODA as there is wide evidence that the vast majority of Chinese firms operating in Africa are small and medium sized (UNCTAD, 2007).

Both Mofcom and Heritage data show that investment declined in 2009 and recovered, albeit moderately in 2010. Table 1 shows that Chinese ODI have been directed largely, but not exclusively, to resource-rich countries or those endowed with large internal markets (Nigeria, South Africa Ethiopia)

While Chinese SOEs invest in oil, mining and construction and, in the context of debt equity swaps, they acquired shares in African projects financed by Chinese aid[5] :. Private Chinese investors operate small to medium scale establishments in manufacturing sector and retail (Gu, 2009). The consensus is that there were around 2000 Chinese firms in Africa by 2009 but according to a senior Chinese official interviewed by Gu, if one takes into account small investors, their number could been over 28000.

Chinese investors find that return over investment in Africa is longer than expected and to overcome their reluctance, the Chinese government took initiatives to support their expansion. In 2006, the FOCAC decided to finance the construction of six Special Economic Zones (SEZ) ; if the Zambian

[4] Consulted at http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map, July 20 2012
[5] as in the case of Friendship textile in Tanzania or sugar plant in Mali

SEZ has started, it is not yet the case of others : Mauritius[6], Ethiopia and Tanzania. In 2007, the government established the China-Africa Development Fund managed by the Chinese development Bank; had invested US$1 billion by 2011 and began placement of its Phase II, US $2 billion. Once totally disbursed, it is projected to bring an investment of US$ 8 billion to Africa.

Despite the uncertainties surrounding Chinese investment in Africa, it is probably modest and Chinese firms are not yet major actors in Africa.

Consequences for Africa

Mining and manufacturing

Although China is the second market of African oil, Chinese oil companies are not major actors in African : according to Heritage, Sinopec (Angola, Cameroun°), CNPC (Angola, Chad, Niger), CNOOC (Nigeria, Uganda, Madagascar) invested a cumulative amount of US $ 6 billion since 2005. While these companies enjoy a good technological reputation, this is not the case of the mining companie who at the exception of Zambia, are minor actors in Africa. According to Heritage, they announced US$13 billions of investments mostly in iron (Gabon, Sierra Leone, Guinea), copper and chrome. Due to the market uncertainties, some of these projects will probably be postponed.
Private Chinese firms are engaged in manufacturing and their investment has been rather modest in labour intensive industries and they have started to venture in car assembly. The largest Chinese investment took place in banking, as Industrial and Commercial Bank took a 20 per cent share of the South African Barclays bank, the largest bank in Africa. ZTE and Huawei have become major actors in the African mobile industry which is one of the fastest growing in the world.

Land grabbing ?

Since the food crisis of 2007, a lot of attention is given to “land grabbing” in Africa and China has often been labelled as a land grabber pursuing a food security strategy. Chinese investment in African agriculture which can be traced back to 1990s, can be divided in several categories (Chaponniere *and alii*, 2012): i) SOEs such as China State Farms Agribusiness Corporation which established agricultural and husbandry production in Zambia, Guinea, Tanzania, Gabon, Ghana, Mali, Togo, Mauritania ;. ZTE Agribusiness Company Ltd had plans for a oil palm plantation in the Democratic Republic of Congo; ii) Provincial actors : Shanxi Province Agribusiness Group in Cameroon ;Hubei Agribusiness Group in Mozambique Chongqing Seed in Tanzania iii) individual initiatives difficult to evaluate.
At the exception of the DRC project which has been reduced in size and has not yet been implemented, these investment are aimed at the local markets and according to an on going survey by a French research centre, its total area represent 3 to 4 % of the land acquisition by foreigners in Africa.

European reactions

There was no waiting list

Chinese investors did not take the place of European as there was no waiting list of investors in Africa. If the international firms with a business presence in Africa rank only Asia as a more attractive destination according to an Ernst & Young survey (2012), those without a business presence are overwhelmingly negative and European firms are the least positive about Africa. Asian firms rank Africa ahead of the former Soviet states and Central America and on a par with Eastern Europe.

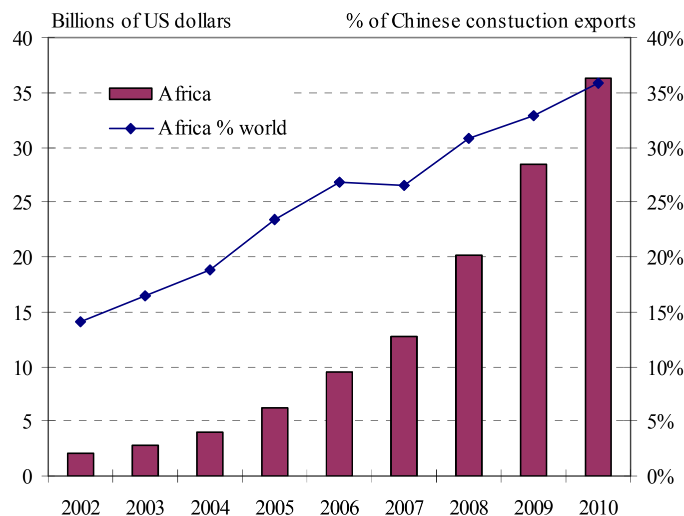
[6] The Mauritius Jinfei SEZ is different as the island has neither natural resources nor cheap labour force, and its small population hardly provides a significant domestic market. It will be a springboard to UE markets

Construction

Chinese contractors which rank among the largest in the world, came in Africa in the 1960 as department of aid of technical ministries Transformed into SOEs in the 80s, they started to answer to international bidding in the 1990s and gained market share at the expense Western contractors. In most countries, they are the lowest bidder and their share of the African market increased from 5 % in 2000, to 21 % in 2004 (Chuan Chen et alii 2007) and has probably reached 40 % in 2011. Their aggressiveness has marginalized European contractors.

Mofcom "International cooperation" statistics offer an estimation of the sales of Chinese contractors. Under this heading, Mofcom aggregates data on construction and civil engineering contracts obtained by Chinese firms abroad from all sources (private; multilateral or bilateral aid). Chinese contractors won US$ 2 billions of contracts in 2002 (Figure 6) and US$36 billions in 2010. Their sales to Africa represent an increasing share –from 14 % to 35% - of their world exports.

Figure 6 : Chinese construction in Africa (2002-2010)



Source : based on Mofcom statistics various issues

The activity of Chinese contractors leads to an overestimation of Chinese aid not only by scholars but also by African laymen as they attribute to China not only the projects financed by China but also project which are financed by the World Bank, African Development bank or bilateral donors and are realized by Chinese contractors

III Chinese aid to Africa

According to DAC definition, China is an emerging donor as it continues to receive aid while being a donor y. China has a long experience of aid recipient. Started in 1949, Soviet aid was abruptly terminated in 1961. China renewed with international aid in the late seventies. Japan became its largest bilateral donor up to 2009 and World Bank its main lender. Meeting its president, Mc Namara, Deng Xiaoping declared "*we can do our program with our without you, but with the World Bank we can do it faster* (Vogel, 2011, p 456). The Chinese government has been in the "driver seat" of international aid to China which reached a maximum of US3,5 billions (0,7% of GDP) in the mid nineties and stands at 646 millions (0,01% of GDP) in 2010, the same amount received by Niger where it represent 8% of GDP..

China is not a new donor to Africa

China has a longer history as a donor than as a recipient. It gave its first aid to sub-saharan Africa (Guinea, Ghana) in 1960. In 1964, Premier Zhou Enlai visited several African countries and, in a

speech in Accra he set forth the "eight principles"[7] which still govern China's aid policy even if their interpretation changed over time. China's aid continued during the Cultural Revolution and reached a maximum in 1976 with the completion of the railway link between Zambia and Tanzania. This made China one of the main donor to Africa. In the eighties, as the government gave priority to modernisation, the number of projects decreased and greater attention was given to their feasibility. During his visit to ten African countries in 1982, Zhao Ziyang set forth "four principles" that gave more weight to mutual benefit. China's involvement in Africa took a new turn (Anshan 2012) with the establishment of the China-Africa Cooperation (FOCAC) which held its first ministerial meeting in Beijing in 2000, its second in Addis Ababa (2003). Taking place one year after the Gleneagles summit, the third FOCAC coincided with the celebration of 50 years of diplomatic relations between China and African nations. It was concluded by a declaration calling for a new type of strategic partnership and China made eight pledges to be reached by 2009 (Kragelund, 2010). The fourth Focac meeting was held in Egypt (2009) and the fifth in Beijing in July 2012.
Up to the release of the White paper on aid in April 2011, China refused the label of "donor" and considered its aid as mutual assistance between Southern countries which share feeling of humiliation at the hands of Western powers.

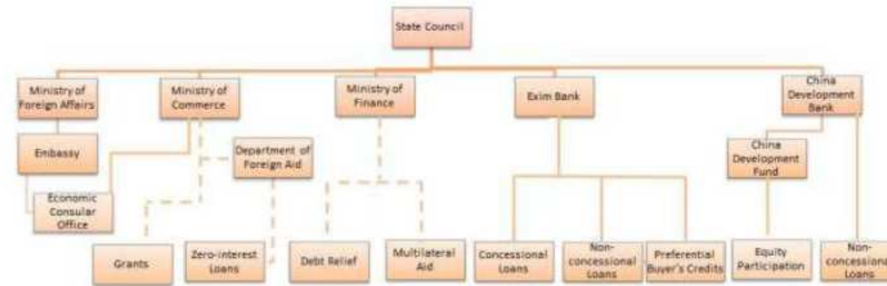
> Official development assistance (ODA) is made up of grant and concessional loan (with a grant element of at least 25 percent) given to promote welfare and economic development.[i] DAC countries do not include, "other official flows" (OOF) such as loans with a grant element less than 25 percent, or export credits in ODA.
> China foreign aid is made up of grants and zero-interest loans, material aid-in-kind, expenses for training in China, technical assistance and the subsidy given to the China Eximbank for concessional foreign aid loans. It includes military aid, loans for foreign-aided joint ventures. It excludes subsidies for "preferential export credits" as well as debt relief which is included by DAC

In the early eighties, the merger between the Ministry of Trade and the Ministry of Foreign Economic Relations led to the creation of the Ministry of Foreign Economic Relations and Trade renamed the Ministry of Commerce (Mofcom) in 2003 and the Ministry of Foreign Economic Relations became its department of Foreign Aid. In the same time, aid offices of ministries, provinces and large municipalities, which carried out aid program were transformed into state-owned enterprises (SOEs).
The organization of Chine aid is not very different from that of other countries (Christensen 2010). At the apex, there is the State Council that approves the annual aid budget as well as grants and loans above a certain minimum threshold and aid to "politically sensitive countries". Below, one finds the Ministry of Finance (MOF), the Ministry of Foreign Affairs (MAF) and the Mofcom. The MOF takes decision regarding debt relief and manages Chinese relations with multilateral institutions. The MFA oversees and coordinates cooperation and exchanges with other countries and regions and, through its African department, it share a co-responsibility with Mofcom for drafting the annual plan for aid and it is in charge of the FOCAC.
While situated at the same hierarchical rank, these ministries are not equal and, as economic considerations play a leading role in the implementation of Chinese aid, Mofcom enjoys the upper hand (Corkin 2011). Its department of Foreign Aid in charge of grants and zero interest loans is staffed with 100 professional which is several times less that Western agencies. It relies on line ministries and external expertise. There seems that no working relations exist between the MAF department handling foreign aid to China and the Mofcom's department of foreign aid. Based on interviews with Government officials and Chinese think tanks, Davies M (2008) concluded that aid is quite disorganized. Indeed, Mofcom hardly coordinates with the MAF's Department of Africa and does not share its concerns concerning Chinese image in Africa8.

[7] Equality between partners, mutual benefit, respect for sovereignty, the use of grants or zero-interest loans and easy rescheduling, emphasis on building the self-reliance of the beneficiary and respect for obligations

[8] In 2007, Hun Jintao suffered a loss of face in Zambia as he was obliged to cancel his visit of the Copper belt. The authorities feared the African workers reaction as an accident in a Chinese owned mine had resulted into 52 casualties. When this happened, officials at the MFA in Beijing were pleased as it showed to the politicians that they were right against the Mofcom who had no misgivings about the misbehaviour of Chinese firms (source : personal interview in Beijing).

Figure 7 : Chinese aid architecture



Source: Christensen, 2010

Until 1995, China provided aid in the form of grants – made in kind in the case of health and education projects – and no-interest loans for infrastructures as for the Tazara. While these financial instruments were maintained, China introduced concessional loans distributed through a special window of the China Eximbank. Established in 1994 and wholly owned by the Central government, this bank reports to the State Council. In 1998, it started to provide export seller credit and in 2000, export buyer's credits were made available to Africa in 2005. The minimum of Exim loans is 20 million Yuan (Davies, 2008) and loans over 100 MY have to be authorized by the State Council. Exim Bank taps the international market (it issues bond at Libor + 100) to finance its loans and its concessional loans are issued in dollars, with an interest rate of 2 to 3 percent, with a grace period of 5 years and maturity of 20 years. The government budget subsidizes the difference between the Eximbank's costs and the fixed interest rate it charged to the borrowers (Brautigam, 2009). According to the White paper on aid, 61% of these loan finance infrastructures

Alternate measure of concessionality

According to DAC aid comprises grant plus net disbursement of concessional loan that have at least a 25 per cent grant element. The grant element is difference between the face value of a loan and its present value calculated at a discount rate of 10%, of the service payments during the lifetime of the loan. Aan alternative measure was devised (Chang and alii 1998, Dollar 1999) who propose to extract the grant element of concessional loan and add it to the pure grants. This is lower than the traditional measure when interest rates are low. Since 2008, Western bilateral aid agencies do not need government support for their loan to qualify as ODA. They would not qualify as ODA if they were evaluated by the Chinese method which is near the one proposed by Chang, 1998. A loan is considered as concessional if ExIm bank receives an interest rate subsidy as the difference between the Exim cost of funding and the interest rate. ExIm bank loans provided at market rates do not qualify as concessional by China. However, depending on their maturity some of them might qualify as ODA if they were analysed by the CAD and if they were not tied

The China Development Bank (CDB) plays an increasingly important role in Africa where it finances Chinese overseas investment[9]; it manages the US$5 billion of the China-Africa Development Fund signed a framework agreement with the East African Development Bank (EADB).

Up to 2010, the only available data on the amount of Chinese aid could be found in the speeches of government official. This led scholars to propose various estimates which ranged from 2 to 18 billions in 2007 (Lum and alii, 2009) and some observers concluded that China was a larger donor than the World Bank. The spread between the estimates is explained by the qualification of Exim loans which are often (and wrongly) considered as all concessional[10]. On April 2011, the first Chinese white paper on aid stated that China had provided a US$37.7 billion in aid between 1949 and 2009 of which

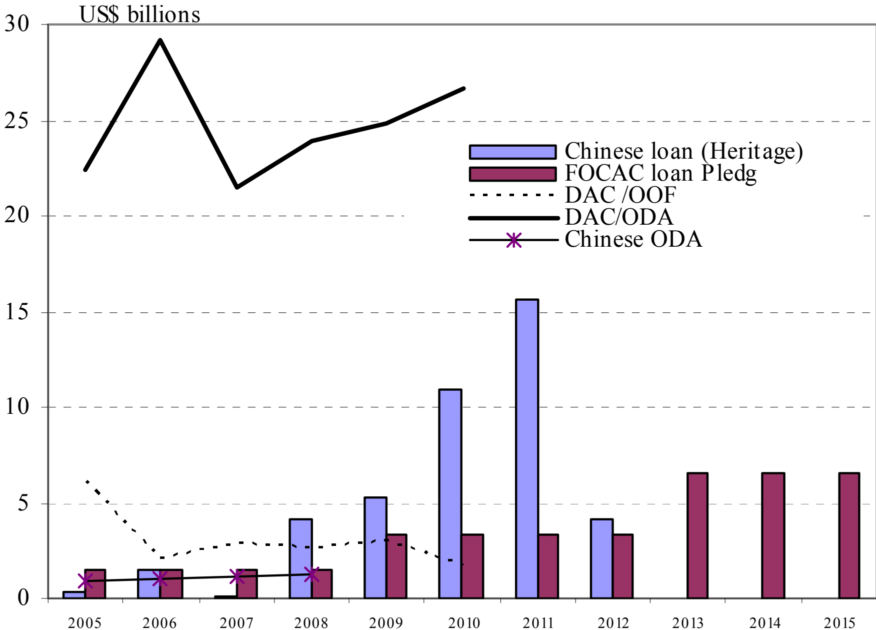
[9] In Tanzania, it financed the expansion of Huawei with a 5,6 % loan significantly below the rates of Western banks.

[10] According to a Standard & Poor's (quoted by Brautigam 2010), concessional loans represented 3% of Exim banks assets in 2005 which represent 1 billion. In 2009 Focac announced an addition of US$10 billion by 2012 and in 2012, it announced 20 billions.

US$15.6 billion in grants, US$11.3 billion in interest-free loans and US$10.8 billion in concessional loans and half of this amount went to Africa. This publication provided neither annual flow nor countries breakdown. Brautigam (2009) estimates that China aid to Africa was 1,3 billion in 2008. At the Focac meeting in Sharm El-Sheikh (2009), China promised US$5 billion in concessional loan for the period 2009 – 2012 and on July 2012, while giving no indication on the amount disbursed since 2009, Hun Jintao pledged an additional 20 billions for 2012-2015. By doing so, he reminded the commitment of China towards Africa.

China is not yet a major donor to Africa and its aid represents around 6 % of DAC however ExIm concessional loans are larger than DAC "other official flows" (Figure 8) .Chinese aid focuses on infrastructure, agriculture and health and concessional loans play an increasing role. China does not finance budget support and its aid which is targeted at projects is mainly bilateral and tied to Chinese goods and services exports.

Figure 8 : Chinese loans and DAC ODA and OOF to Sub Saharan Africa



Sources : OECD DAC database, Heritage, Brautigam FOCAC

The figure shows :
i) OECD countries ODA and gross Other official flows to Africa
ii) Chinese loans (total) as recorded by Heritage
iii) Chinese concessional pledges as announced by FOCAC (and annualised)
iv) Chinese ODA according to Brautigam

African welcome the arrival of a new donor

OECD realization fell short of the Gleneagles summit (2005) promises to double its aid, while China has probably fulfilled the engagement (Kragelund, 2010) it made at Beijing one year later. Welcome by African governments who appreciate its focus on infrastructures, Chinese aid is criticised by African NGOs which denounces the opacity of its decision making process and its lack of concern for environment.

Welcome

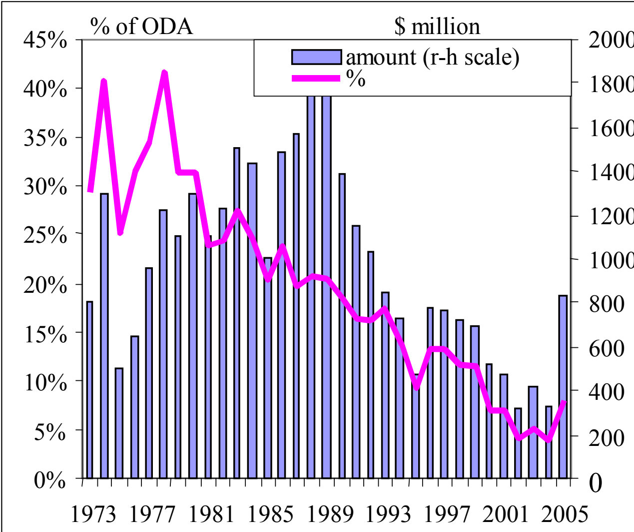
The rise of Chinese aid is occurring against a background of disaffection among poor countries with the established development assistance regime (Woods, 2008). African governments regularly praise

Chinese aid which is less cumbersome than Europe as it goes “without strings attached” at the exception of the “one China policy”.
In the absence of reliable data, one cannot assess if Chinese aid is evenly distributed among African countries. This could explain the Chinese reluctance to publish comprehensive statistics which would eventually reveal inequality of treatment according to the size of the market, the existence of resources etc…and raise questions from aid recipient countries. Chinese attitude may have become counter productive : thus in 2006, as the Focac announced a doubling of Chinese aid for the period 2006 – 2009, every African countries could have expected a doubling of the aid they received from Beijing.

infrastructures

In contrast to Western donors, China has not changed its development agendas and based upon its experience, it has always given priority to infrastructure. This is appreciated by African countries as the poor state of their infrastructure is a major bottleneck for their development.
While 70 % of Chinese aid finance infrastructure development, infrastructures' share of DAC aid fell from 1970 to 2005. After financing “white elephants” in the 1960s, Western donors became reluctant to finance infrastructures and in the nineties, they agreed to stay away from projects that could be realized by the private sector (Paquement, 1998). According to NEPAD-OECD (2011), though total ODA to Africa increased during the 2000s, the share of infrastructures (electricity, transport, telecommunications, and water) stayed under 10 % (Figure 8).

Figure 8 Share of infrastructure in ODA to Africa



Source: based on OECD Development Assistance Committee data

Twenty years after the demise of the Eastern bloc, African countries appreciate the emergence of a new donor that can serve as an alternative to Western donor.

European reactions, from hysteria to engagement

European failed to anticipate China rapid emergence in Africa (Wissenbach, 2011) and were surprised by the venue of 48 African heads of State in Beijing in 2006. It triggered some hysteria among the donors community : the so called “Beijing consensus” [11]was presented as the worst ideological menace to the Western world since the collapse of communism (Leonard, 2008). Even if these reactions subsided, Chinese is still considered as malign donor (Kragelund, 2010) by Europeans who, failing to recognize its strong development legitimacy, fear that its absence of conditions is a risk for the future of reforms.

[11] This concept was proposed by Ramo (2004) as opposed to the Washington consensus

Coordination and governance

While China signed the Paris declaration on Aid Harmonization as a recipient country, does it adhere it as a donor ? Harmonization starts with the participation to donors meeting in recipient countries where China's chair has traditionally stayed empty. However Chinese participation seem to be somewhat dependant upon the personnel attitude of the Chinese ambassador and their language skills.

China and African debt

China has become a major creditor of Africa. Notwithstanding the fact that China grants debt relief, traditional donors accuse it of following a "free rider" strategy by lending to countries that benefitted of the Heavily Indebted Poor Countries (HIPC) initiative launched in the 1990s and which reduced Africa's external debt from 80 per cent of GDP to 35 per cent (2009). To avoid a new debt crisis, IMF and World Bank developed a debt sustainability framework that sets debt ceilings according to the Country Policy and Institutional Assessment (CPIA). If China does not cooperate to this framework, this effort will be much less effective. Reisen (2007) showed that the countries which received large Chinese loans were not those that enjoyed the largest debt remissions. This could change. If China had renounced to the much debated DRC's State guarantee on ExIm large loans to Gecamines copper mines, Chinese loans to Ethiopia have rapidly increased to represent 20 % of GDP and in 2011, Ghana accepted a 1,5 billion loan from Exim bank which, one disbursed represent 3 % of GDP.

Tied aid

Western exporters benefitted from tied aid during decades before European donors agreed to untie their aid. Nevertheless lower income European countries are reluctant to abandon tied aid while most donors countries provide ties technical assistance, food and transport of food aid.

As most emerging countries, China ties its aid to its export of "made in China" products. Even if some subsidiaries of Western firms have been sub contractors to Chinese firms realizing aided projects in Africa, a much larger number of Chinese firms take advantage of Western aid as they win the tenders of multilateral and bilateral donors. This led European donors to discuss the "re linking" of their aid. This idea has not been pursued as it would oblige them to offer more concessional terms in order for their loans to qualify as ODA. Since Chinese goods and services are highly competitive compared to OECD countries, China practice of tying aid is less an issue as it does not create significant distortion of competition. (Barthelemy 2012).

Chinese competitiveness raises another question : why China does not untie its aid ? Such a decision would result in a "win – no lose" situation for China as it would increase its political legitimacy at no cost since Chinese contractors would probably win the international bidding. Among the, there is the fact that Mofcom and Exim bank are "used" to work with a small number of contractors that are regularly short listed[12]. Considering the competitive nature of the Chinese construction market, there would be probably many more Chinese firms responding to international bidding for China financed projects. This would result in the arrival of other Chinese contractors in the international markets that would lower prices.

Packaged deals

One of the most criticized features of Chinese aid is the resource-backed loans. It was initiated in Angola, where ExIm bank made a huge line of credit backed by oil exports to allow the government to repair infrastructure. In devising the "Angola mode" China could have been inspired by the "Goa Mode" initiated by Japan in India where in exchange to an access to local coal, Japan provided equipment, technical training and financing(Defraigne, 2010).. Japanese adopted the "Goa mode" in China where, in the late seventies, they negotiated an agreement to export equipment backed by repayment in oil and coal (Brautigam, 2009).

Chinese argue that these deals which connect loans and ressource, ensure that the gains from exports are invested in the country's infrastructures. Nevertheless, due to their non transparency, these deals

[12] Based on interview in Beijing by the author.

which are discussed at the head of state level, raise several issues (the mode of valuation of the raw materials exported.

Even if they harbour misgivings *vis à vis* Chinese aid to Africa, European donors have tried to engage a dialogue with China either separately or multilateral as in the DAC – China project. Thus, according to Lancaster (2007) officials of the Mofcom engaged in dialogues with other lending institutions to develop some sort of evaluation system,

PERSPECTIVES

According to a long time observer (Frish, 2008, page 41), if Europe is not careful, it may well be marginalised in Africa. Since this remarks were made, the world financial crisis hit Europe. While European budget will remain under stress, China has the financial means to become the main actor in Africa.
The revival of African economies since 2000 has not resulted in a transformation of their production. If the share of agriculture in GDP declined, that of manufacturing remained at less than 10 %. If China cannot be blamed for the desindustrialization of Africa[13], Chinese demand is reinforcing the African primary sector, while Chinese competitiveness is an additional obstacle for the industrialization of Africa. This is a major challenge for the future of African economies where growth failed to create jobs and where youth unemployment is extremely high (AfDB report 2012). Agriculture continues to host an overwhelming majority of the active population which will increase by 260 millions between 2010 and 2030. African economies need to diversify into labour intensive manufactures and services. Nevertheless, if China is one of the problems that faces Africa, it may be part of the solution through its aid and its investment.

- Reducing the Africa's infrastructure gap require around US$93 billion a year (J. Page 2011/12). As European aid may not increase[14], Chinese concessional loans will be welcome : at the FOCAC meeting on July 2012, China announced 20 billions of loan for the next three years. However, China may find it difficult to increase its aid as its organisation suffers from understaffing and a lack of coordination[15]..
- Chinese wages has been held down by the size of the reservoir of rural workers. It is diminishing and the fall in the number of 15- to 24-year-old may signal an end of the era of cheap labour. China enters a stage where Japan was in the 1980s, Korea and Taiwan in the 1990s. Due to the size of its labour market, this could represent a huge opportunity for lower-income countries (Vandana Chandra and alii 2012) and the eventual relocation of 10 % of China workers could double manufacturing employment in Africa. However, Vietnam, Myanmar and Bangladesh are also eager to welcome Chinese investors. Although in some African countries (Ethiopia[16]) the productivity at the factory level approaches Asian countries' (World Bank, 2011), the later offer better investment conditions.

As the labour content of Chinese exports to Africa is larger than the labour content of its African imports, the balance of job of the Africa Trade – investment - aid nexus – is probably negative for Africa. Indeed the destruction linked to trade is probably higher than the creation from either aid or investment. This would change if China import African manufactured goods. At the July 2012 FOCAC meeting, the South African president[17] warned that the China Africa trade was unsustainable. Looking for skills transfer that would allow their countries to climb the productivity ladder, African leaders are addressing China the same plea that developing countries addressed the Western World at its first meeting of Unctad in 1964 : "*Trade not aid*"

[13] It is explained by the poor business environment, the lack of infrastructures and the legacy of the structural adjustment program of the 1990s.
[14] In 2011,ODA fell by 2.7% (in real terms) but DAC aid to sub-Saharan Africa increased by 4.0%
[15] China has no development cooperation agency to coordinate the policies. There has been talk of setting one up but this project which would encroach Mofcom power has not been pursued
[16] The Economist : Ethiopian shoes on the march, footwear may be Ethiopia's commercial future June 14 2002
[17] Leslie Hook, Zuma warns on Africa's trade ties to China Financial Times July 19, 2012

REFERENCES

African development bank, 2012, *Africa economic outlook 2012, promoting youth employment* Tunis

Li Anshan, Liu Haifang, Pan Huaqiong, Zeng Aiping and He Wenping,2012, FOCAC Twelve Years Later Achievements, Challenges and the Way Forward Peking University, School of International Studies in cooperation with Nordiska Afrikainstitutet, Uppsala 2012

Berthelemy, Jean-Claude, 2009, *Impact of China's engagement on the sectoral allocation of resources and aid effectiveness in Africa* at African Economic Conference Fostering Development in an Era of Financial and Economic Crises 11 – 13 November • United Nations Conference Centre • Addis Ababa, Ethiopia

Brautigam, Deborah, 2009 : *The Dragon's Gift : The Real Story of China in Africa* Oxford University Press.

Brautigam, Deborah, 2010 : *China, Africa and the International Aid Architecture*, Working Paper nº 107 Tunis : African Development Bank).

Vandana Chandra, Justin Yifu Lin,Yan Wang, 2012, Leading Dragons Phenomenon New Opportunities for Catch-Up in Low-Income Countries World Bank Institute March

Chang, Charles, Eduardo Fernandez-Arias and Luis Serven. 1998. *Measuring Aid flows : A New Approach* World Bank Development Research Group Washington D.C.

Chaponnière Jean Raphael (2012) : China in Africa : does history repeat itself ? Africa East Asian Affairs China Monitor , july

Chaponniere, Jean-Raphael. 2009 : "Chinese Aid to Africa Origins, Forms and Issues" in Meine Pieter van Dijk (ed.) : *The new presence of China in Africa* Amsterdam University Press

Chaponniere JR, Jean Jacques Gabas, Zheng Qi, 2010 China Africa in AGRICULTUREA background paper on Trade, investment and aid in agriculture China-DAC Study Group on Agriculture, Food Security and Rural Development, Bamako, April 27-28, 2010

Chaponniere JR, Jean Jacques Gabas (ed), 2012 : *Le temps de la Chine en Afrique* Khartala Paris

Christensen, Benedicte Vibe, "China in Africa: A Macroeconomic Perspective," Center for Global Development Working Paper 230, December 22, 2010

Chuan Chen, Pi-Chu Chiu, Ryan J Orr, Andrea Goldstein, 2007, An empirical analysis of Chinese construction firm entry into Africa The CRIOCM2007 International Symposium on Advancement of Construction management and real estate, Sydney August

Corkin, Lucy (2011), Redefining Foreign Policy Impulses toward Africa: The Roles of the MFA, the MOFCOM and China Exim Bank, Journal of Current Chinese Affairs, 40, 4, 61-90

Jean-Christophe Defraigne, Serena Belligoli, 2010 :Ties between business and aid programs in Africa A comparative analysis between the European and the Chinese cases EBHA Conference – 26-28 August 2010, Glasgow

Dorothy Mc Cormik, 2011, Africa and its Emerging Development Partners: Helping or Hindering Industrialisation? Institute of Development studies Nairobi Kenya

Davies, Martin, 2008; : *How China delivers development assistance to Africa*, Center for Chinese Studies

Dollar, David, 1999, *What works and what does not* World Bank Washington D.C.

Ernst & Young's 2012 *Attractiveness survey Africa* Emerging market center

Masuma Farooki, Raphael Kaplinsky, 2012, *The Impact of China on Global Commodity Prices: The Global Reshaping of the Resource Sector* Taylor & Francis, Routlege, London

Frisch, Dieter, 2009. *The European Union's development policy A personal view of 50 years of international cooperation* Policy management report 5 European Centre for Development Policy Management

Stephen Gelb, 2010, Foreign Direct Investment Links between South Africa & China The EDGE Institute, Johannesburg and Department of Economics & Econometrics, University of Johannesburg

Steve Grimm, 2011, China as Africa's ambiguous ally, Why China has a responsibility for Africa development Center for Chinese studies, Stellenbosch University discussion paper 1/2011

Jin Gu, 2009, China's Private Enterprises in Africa and the Implications for African Development European Journal of Development Research Special Issue, Vol. 24, No. 1

Kragelund, P, 2010, 'The Potential Role of Non-traditional Donors' Aid in Africa'. Issue Paper 11. Geneva: International Centre for Trade and Sustainable Development

Lancaster C.,2007, "The Chinese Aid System", *Center For Global Development Essay*, 06/

Leonard Mark (2008), *What does China thinks ?* Fourth Estate London

NEPAD-OECD, 2011, Public Investment in Infrastructure: An Approach for Sustainable Development. Paris: OECD.

John Page, 2012, Aid, Structural Change and the Private Sector in Africa Wider Working Paper No. 2012/21

Ramo, Joshua Cooper (2004), *The Beijing Consensus*, Foreign Policy Centre, London.

Stephen Radelet, 2010, Emerging Africa, how 17 countries are leading the way Center for Global Development

Reisen, Helmut and Sokhna Ndoye (2007), *Prudent versus Imprudent Lending to Africa after HIPC and MDRI*, OECD Development Centre, Paris

O Ray, Severino JM, 2010, *Le temps de l'Afrique* Odile Jacob

David H. Shinn and Joshua Eisenman, 2012 *China and Africa: A Century of Engagement* The University of Pennsylvania Press, 520 pages

Uwe Wissenbach, 2011, "The UE, China and Africa : partners or competitors ?" in Jing Men and Benjamin Barton, *China and the European Union in Africa, partners or competitors* Asghate UK

Ezra Vogel, 2011, *Deng Xiaoping and the transformation of China* Harvard University Press

Unctad, 2007, *Asia foreign direct investment in Africa* Geneva

Woods, N, (2008). Whose aid ? Whose influence ? China, emerging donors and the silent revolution in development assistance International Affairs, 84(6), 1205-1221

World Bank, 2011 *Light Manufacturing in Africa: Targeted Policies to Enhance Private Investment and Create Jobs* Background paper

---
i