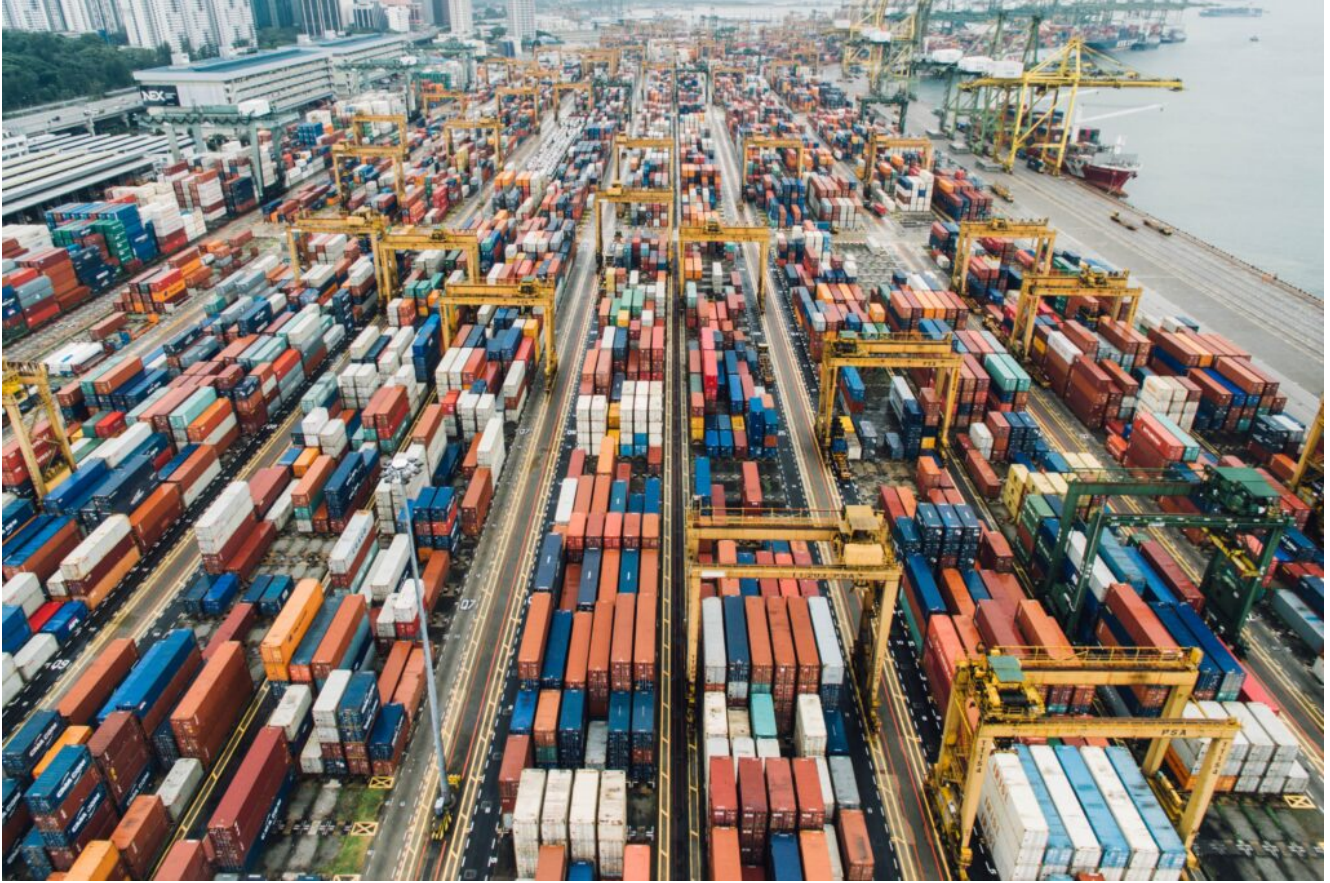


# The Evolving Dynamics of Africa-China Business Relations



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This study delves into the historical roots of China-Africa relations, tracing over a century. As China's economy thrives globally, the need for reliable resources to support its development has grown exponentially. While investors perceive Africa as risky, it also holds great potential for lucrative returns, especially in energy, commodities, manufacturing, infrastructure, and services. China's modernisation and increasing resource demand have significantly impacted Africa, leading to trade, Foreign Direct Investment, and other developmental endeavours. The two

regions' dynamic has transformed, with China now pursuing shared-vision partnerships and cooperation.

## **Introduction**

China's historical friendship with Africa traces back to the inception of modern China, where it provided substantial support to various African countries during their struggles for liberation and independence. While diplomatic and political relations have been evident, the trade and investment ties between the two regions have a long-standing history. However, in contemporary times, the interplay of strong economic growth, globalisation, and global political dynamics has prompted China to adopt more proactive approaches in its relations with Africa and the rest of the World.

In 1983, China introduced four principles for fostering economic cooperation with African countries, emphasising equality, reciprocity, tangible results, and joint development. China's sustained economic growth and development have necessitated a rising demand for energy and raw materials, which Africa is well-positioned to supply. Notably, sub-Saharan Africa accounts for approximately 25-30% of China's oil imports, with key suppliers being Sudan, Angola, Nigeria, and Gabon, solidifying the economic bond between the regions.

Beyond oil, China has also invested in acquiring mineral resources, such as copper, from countries like Zambia and the Democratic Republic of the Congo. While natural resources dominate trade, Chinese entrepreneurs increasingly explore Africa as a potential market for other goods. As these business and trade links grow, they have attracted attention from Africa's traditional allies, former colonial powers, and Western nations. Nevertheless, China has established trade relations with nearly 60 African countries, with over 150 trading companies and agents operating on the continent.

As African countries undergo modernisation and improve governance, China adapts its policies to foster flourishing economic and trade cooperation between the two sides. This paper sheds light on recent trends in Chinese involvement in trade, business, and manufacturing in Africa, focusing on energy and raw materials, infrastructure projects, and small-scale investments. These trends are analysed in the context of China's resource exploration and Foreign Direct Investment (FDI) to identify development opportunities, potential African

markets, the role of development aid, and the socio-economic implications for Africans. By understanding these issues comprehensively, we seek to facilitate business relationships that contribute to the long-term sustainable development of China and Africa.

### **‘China’s Quest for Resources and Trade**

China’s resource quest has transformed global politics and ushered in a new era of trade and cooperation, breaking away from the traditional North-South relationship. Despite its status as a developing country, China’s meteoric rise as an economic superpower has placed it on equal footing with Africa in pursuing economic development. In this pursuit, China has made significant strides in technological advancements, services, business linkages, and poverty alleviation strategies, propelling its position as an important player in international trading. This ascendancy has led to concerns among many analysts about the potential threat it poses to the dominance of traditional Western industries. With an estimated market share of around 25% within the next two decades, China’s impact on the global economy is undeniable. While some have viewed China’s trade engagement with Africa one-sided, it has demonstrated unprecedented growth and is mutually beneficial. Over the years, the value of China-Africa trade has skyrocketed from \$3 billion in 1995 to over \$55 billion by the end of 2006. Today, China is Africa’s third-largest trading partner, trailing only the United States and France. Notably, this exponential growth in trade with Africa is believed to have contributed to approximately 20% of China’s total economic growth during this period.

Sub-Saharan African exports to China accounted for about 10% in 2005, with the bulk comprising oil and natural resources. Interestingly, a few resource-rich African countries accounted for more than half of these exports to China, while just ten countries comprised nearly 90% of the total imports. This highlights the critical role that resource-rich African nations play in fulfilling China’s demands. Africa’s significance as a source of crucial commodities for industrial production cannot be overstated. The continent’s vast oil production capacity, amounting to over 10 million barrels daily in 2005, constituted approximately 11% of the World’s total oil production.

Moreover, Africa held about 8% of the World’s oil reserves, making it a key player in the global oil market, particularly with its predominantly offshore light, sweet,

and profitable crude oil. In recent years, Africa's west and central coasts have become hotspots for new oil discoveries, accounting for approximately 85% of the World's further oil reserves between 2001 and 2004. Consequently, China's interest in resource exploration has surpassed some of its traditional Western allies, such as the United States, regarding oil imports from Africa.

China imported 30% of its total oil consumption of 7.2 million barrels per day from Africa in 2005, while the United States, with a consumption of 20 million barrels per day, imported 16% from Africa. This gap is expected to widen in favour of China, reaching 25% by 2020. Moreover, China's strategic partnership with Sudan, directing over 60% of the country's oil production towards China, underscores its deepening engagement in African energy resources.

As multinational entities like British Petroleum have reported, China's imports of African oil registered a remarkable surge of over 71% between 2003 and 2005, further solidifying its position as a key player in Africa's oil market. This chapter explores the multifaceted impact of China's emergence as a global economic powerhouse on Africa's resources, trade dynamics, and economic growth. By delving into the changing landscape of China-Africa relations, we aim to comprehend the implications of this evolving partnership for both regions and explore avenues for sustainable development and cooperation.

### **From Aid-centred to Trade and Investment Policies in Africa**

In the 1970s, Africa's share of world trade stood at 5%, but by 2005, it had dwindled to a mere 1.5%. This decline can be attributed to government instability, lack of strategic investments, and heavy reliance on support from traditional Western allies. Consequently, aid and investment, primarily focused on oil and natural resources, dwindled, and the economic growth and development of the region suffered. African governments found themselves at the mercy of conditional aid, hindering their ability to pursue independent policies for growth and development. As other regions progressed, Africa grappled with the absence of strategic investments and needed to be improved by conditional aid structures.

In contrast, China emerged as an alternative partner, offering aid and loans without imposing conditionalities. This approach gave African governments greater freedom to chart their economic trajectories and bolstered their capacity for growth and development. China's trade and investment in Africa, too, adopted

a strategic trajectory, marking a departure from the conventional practices of other countries and development agencies. Surveys conducted in 2005 revealed the presence of over 800 Chinese companies already operating in Africa, indicating a growing and diversified Chinese investment landscape in the continent. Although concentrated in specific sectors, Chinese investment demonstrated consistent growth, with flows amounting to \$135 million in 2004 and \$175 million in the first ten months of 2005.

In comparison, Africa's average annual FDI inflow between 2001 and 2004 ranged from \$15 billion to \$18 billion, with Africa boasting the highest FDI inflow share in the World, peaking at 40% in 2005. While China's investments, like those of its traditional African partners, are concentrated in particular sectors, projections indicate that China could soon ascend to one of Africa's top three FDI suppliers. China's current trade with Africa represents only a fraction of the global trade volume, which amounted to about \$1.4 trillion in 2005; its engagement in the region is increasing. While anchored in neoliberal principles, African leaders have sought alternative pathways to foster growth and economic development, establishing the New Partnership for Africa's Development (NEPAD) in 2001. As an initiative created by Africa for Africa, NEPAD advocates for integration into world markets to stimulate growth and reduce poverty and inequality. Recognising the vital role of FDI in achieving these goals, NEPAD welcomes capital, technology, and expertise brought by FDI to stimulate economic growth and job creation in Africa.

In this chapter, we explore China's unconventional engagement with Africa and its strategic investments that have the potential to reshape the continent's economic landscape. We analyse the impact of China's aid and loans, which offer a departure from traditional conditionalities, and the growing diversification of Chinese investments in Africa. Moreover, we delve into the NEPAD and its endorsement of FDI as a catalyst for sustainable economic growth and development across the continent. By examining these dimensions, we aim to shed light on the evolving dynamics of China's involvement in Africa's economic journey and its implications for the region's long-term development prospects.

### **Unlocking the Potential of China's FDI in Africa**

With over 25 years of market-oriented economic reforms, China's FDI outflow trajectory has been remarkable. What was once a modest figure of less than \$100

million in the 1980s has soared to nearly \$12 billion in 2005, with projections indicating further growth in the coming years. As China emerges as a significant global player, its significance as an FDI source is expected to rise, with Africa standing to benefit significantly from this development.

Market-oriented FDI has become a dominant form of investment, propelled by knowledge and proximity advantages. While Africa holds vast potential for attracting FDI, improvement in infrastructure remains a critical factor. Factors such as efficiency, knowledge base, and a skilled workforce also play pivotal roles in enticing investors. Currently, Africa primarily attracts FDI related to its abundant natural resources, although investments in manufacturing are on the rise.

Understanding the order of aid, trade, and FDI necessitates considering pull and push factors influencing the potential of FDI in Africa. Chinese companies, relatively new to African markets, must be aware of these factors. Africa's appeal as an FDI destination stems from access to underserved markets, locational advantages for accessing natural resources, and the availability of a cheap and abundant labour force. The continent also presents opportunities for infrastructure investments and government contracts, fostering closer relationships with African companies to leverage the markets and resources it offers.

Recognising the need to enhance their image and attract FDI, many African countries have undergone governance changes and taken measures to provide more incentives and institutional support to foreign companies. Investment Promotion Agencies (IPAs) facilitate this process by offering information, acting as the first point of contact, and supporting start-ups. Additionally, some countries provide one-stop shops for business and investment purposes, while others offer tax breaks and various incentives. IPAs regularly host investment forums, roadshows, and exhibitions to entice potential investors to their countries.

China's journey of opening its economy to FDI in the late 1970s, coupled with its experience in injecting FDI into Africa and utilising FDI to boost national economic development, holds immense relevance for African countries seeking to attract and capitalise on increased FDI inflows. As cooperation, trade, and investment between China and Africa continue to surge, African countries stand

to benefit from China's experience and expertise. While it is in more recent years that Africa has become a significant destination for Chinese FDI, the stock of FDI in the continent had reached nearly \$1.6 billion by 2005, with further growth expected to unfold.

### **African Market Development Opportunities and Potentials**

Historically, Africa's development has been closely linked to Western financial institutions, but their investment and financing in infrastructure and major development projects have been minimal for the past three decades. Instead, private or quasi-public-private entities have predominantly focused on trading in oil and minerals. However, China's recent expansion in Africa has presented a new paradigm driven by recognising Africa's historical neglect by other developed countries.

China's strategic approach to Africa is evidenced by its substantial financial commitments. In 2006 alone, China provided over \$8 billion in loans to sub-Saharan Africa, primarily for infrastructure projects. Subsequently, in 2007, China established the China-African Development Fund, pledging up to \$20 billion in soft loans for trade and infrastructure through the China Development Bank and the Export-Import Bank over the next few years. This significant investment underscores China's acknowledgement of Africa's critical role in its global economic strategy and its commitment to fostering the continent's sustainable development.

The Chinese government and companies have heavily invested in Africa, spanning infrastructure development, natural resource extraction, and capacity building. This mutually beneficial approach facilitates economic growth in African countries while securing resources and new markets for China. As China's presence in Africa expands, competition in the continent's economic landscape intensifies between China and the West and among Chinese companies vying for dominance. However, this healthy competition is proving advantageous for Africa, as evidenced by the substantial increase in China's exports to and imports from the continent.

Despite these positive trends, Africa's share in global value-added manufacturing and export share in world trade has dwindled to mere fractions, disproportionately low compared to its 13% share of the World's population.

Nevertheless, the African market exhibits promising economic potential, buoyed by regulatory and structural reforms, privatisation, and export growth. African governments proactively create attractive investment climates through liberal regulatory regimes, incentive structures, and bilateral investment agreements.

## **Conclusion**

The historical relationship between China and African countries is based on a shared pursuit of close economic ties to access natural resources. Over the decades, this strategic partnership has thrived, encompassing political, military, and economic connections. Africa has benefited from infrastructure, resources, and capacity-building investments, while China has gained access to new markets and resource security. China's approach to Africa was influenced by neglect from traditional Western allies, creating an opportunity for deeper engagement. Capitalising on this, China strategically entered African economies through grants, loans, and projects, establishing a strong presence, especially in the Horn of Africa. As China's global integration accelerates, African governments and businesses seek to tap into its expertise and growing economic power. Despite the benefits, Africa faces the challenge of limited employment opportunities for low-skilled workers due to resource exploitation. Resource-rich nations must foster job-rich sectors and sustainable development to harness potential benefits fully. This article underscores the mutually beneficial nature of China-Africa relations. By effectively leveraging China's experience and navigating the evolving global economic landscape, African nations can chart a path towards inclusive prosperity and transformative growth.

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