Assessing China's Role and Influence in Africa

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I thank Chairman Ileana Ros-Lehtinen of the House Committee on Foreign Affairs, Subcommittee Chairman Christopher Smith and Ranking Member Karen Bass for inviting me to participate in this hearing. For the past six years, two of us have been researching a book on China-Africa relations that is being published by the University of Pennsylvania Press and will be available this June. My comments today reflect some of that research. Unless otherwise noted, the statistics and analysis in this testimony refer to all fifty-four countries in Africa. China tends not to make a distinction between Sub-Saharan Africa and North Africa as the U.S. government often does.

U.S.-China Economic Competition in Africa

The Subcommittee asked that we focus on how China competes economically with the United States in Africa, how China serves as an undemocratic model of governance and issues concerning natural resources, land grabs and human rights. Let me take the economic competition question first. The most important difference between the United States and China is the very structure of the American and Chinese governments and the way their respective systems engage in Africa. American commercial activity (trade, investment and bidding on contracts) in Africa is conducted by private companies with limited involvement by the U.S. government. If two or more private U.S. companies are competing for the same project, the U.S. government must be impartial, providing essentially equal help to all U.S. interested parties. When this situation occurs, my experience was that the role of the U.S. government diminishes even further.

The situation concerning the relationship between Chinese companies and the government of China is significantly different. While most Chinese companies operating in Africa are private, they tend to be small or medium sized and account for a relatively small percentage of the dollar value of Chinese trade, investment and wining of contracts in Africa.

The following sectors in China are controlled predominantly by the state: oil, petrochemicals, mining, banks, insurance, steel, aluminum, electricity, aviation, airports, railways, ports, highways, health care and education. Most of the large Chinese companies operating in Africa are state owned enterprises or SOEs. This includes nearly all of the large construction companies that are today building most of Africa's infrastructure and China's principal national oil companies—China National Petroleum Corporation, China Petrochemical Corporation and China National Offshore Oil Corporation Ltd. Some SOEs, for example the Aluminum Corporation of China (CHINALCO), which is a holding company, has a subsidiary, the Aluminum Corporation of China Limited (CHALCO) listed on the New York, Hong Kong and Shanghai stock exchanges. All of the SOEs receive extensive support from the government of China in the form of financing and establishing contacts with African governments. Other companies are owned by provincial governments and also receive government help.

A few large Chinese companies that are prominent in Africa are not SOEs. Their corporate structure is sometimes unclear. ZTE Corporation is China's second largest telecom equipment provider. It has forty offices in Africa and a total staff of 4,000 on the continent. It is a publicly owned company on the Shenzhen and Hong Kong stock exchanges. Ninety percent of its stock is privately held and 10 percent held by the government of China. ZTE benefits from Chinese government loans and appears to have a close working relationship with the government although it tends to operate like a private company.

Huawei, which competes with ZTE as well as large Western telecommunications companies, is an information and communications technology solutions provider. It has more than 2,000 personnel in Africa and has established training centers in Nigeria, Kenya, Egypt and Tunisia. It is providing services to more than thirty African countries. Huawei is sometimes said to be a private company and on other occasions called a "collective." It has never published its ownership structure. It sells no shares on the stock exchange. It is believed that most of its shares are owned by Ren Zhengfei, a former People's Liberation Army logistics officer who founded the company in 1988. Like ZTE, Huawei seems to have the full support of the government of China in its Africa operations.

The links between the government of China and private companies are less clear. For example, Mindray is a smaller, publicly-owned medical equipment and technology company that is listed on the New York Stock Exchange. It has no government ownership. It competes in Africa with Chinese SOEs in addition to non-Chinese companies such as General Electric and Philips. Mindray has subsidiaries in Egypt, South Africa and Kenya; it sells products to forty-five African countries. Several of its leaders told us in February that it receives no financing and very little support from the government. Chinese embassies in Africa have provided Mindray with useful market information.

The Bosai Minerals Group Company Limited has a single project in Africa; it purchased a bauxite mine in Ghana in 2009 after the bottom fell out of the market. It now has 400 employees and the mine has reportedly become a huge success. Bosai is a wholly private company that decided to go overseas because it is easier to compete with Chinese SOEs abroad than in China. Bosai officials told us in February that the company relies heavily on government support, especially financing. The government helped open doors in Ghana and Bosai management representatives said the Chinese embassy in Accra was extremely helpful in securing the deal. In this case, there was no Chinese competition for purchase of the mine.

The very nature of the different U.S. governmental and economic systems gives a huge advantage to Chinese SOEs and those, such as Huawei, that have a special relationship with the government of China. The SOEs often win bids as part of a package deal of government loans and tied contracts. After the SOE is engaged in the project, there are additional advantages that African countries have learned to appreciate. The director of roads in one African country where Chinese companies are building most of the roads explained it this way: "Whenever there is a problem such as a delay in construction or a quality issue I just call the Chinese ambassador and he sees that the matter is taken care of. If this were an American or German company, I would be in court for years." While private Chinese companies may not have a significant advantage over American companies, even some of them seem to have easier access to government financing than is usually possible for American companies.

It is also important to acknowledge that since the mid-1990s, Chinese companies (SOEs, publicly owned and private) have been more aggressive in Africa than have their Western competitors. Many of them, especially the mining, construction, and telecommunications companies, are now better established on the ground than most of their non-Chinese competition. In seeking to win bids, they are usually willing to accept a lower profit margin and, in some cases, to bid below cost in order to break into the market. In the past five years, Chinese banks have also significantly increased their engagement in Africa, especially by purchasing shares of African banks and European banks with large exposure in Africa. The 2008 purchase by the Industrial and Commercial Bank of China for 20 percent of South Africa's Standard Bank Group for $5.5 billion underscores this trend. As Chinese banking increases in Africa, it attracts additional attention from Chinese companies that were previously reluctant to invest in the continent because of the paucity of familiar Chinese banking facilities.

There are persistent reports, which are very difficult to prove, that Chinese companies are prepared to pay bribes to win contracts. While this probably ensures consummation of a deal in a few cases, the far more important reason for the success of Chinese companies is the direct assistance provided by the Chinese government to finance projects and sale of products, often as part of a package arrangement. Most African governments, where the state continues to have a larger role in the economy than is the case in the West, understand this policy and often welcome it. Many African governments have a vision of the government's role that is closer to China's structure than Western structures. This poses a difficult challenge for any American company that is competing with a Chinese company offering similar services or products even when the quality of the American service or product is usually better. The price of American products and services is almost always higher, sometimes significantly so. In much of Africa, lower price tends to win out over higher quality. In the case of winning bids on large projects, especially infrastructure, the most serious challenge is obtaining competitive financing and a willingness to accept a lower profit margin.

Natural Resources

While China has a number of interests in Africa, maintaining access to raw materials is, in my view, at the top of the list. China imports just under one-third of its oil from Africa and the total amount of Chinese oil imports globally is rising rapidly. Between 2009 and 2010, Chinese crude oil imports rose more than 17 percent. China also imports significant quantities of cobalt, copper, manganese, tantalum, bauxite and iron ore from Africa. About 85 percent of all Chinese imports from Africa are raw materials, mainly crude oil and minerals. China requires these raw materials from Africa and other parts of the world in order to help insure the health of its manufacturing industry and export capacity. This, in turn, helps to maintain its high GDP growth rate, which has averaged more than 9 percent annually for the past three decades. This high economic growth helps keep the leadership of the Chinese Communist Party in power.

In 2010, China imported 4.8 million barrels per day (bbl/d) of crude oil. Of this total, 2.2 million bbl/d or 47 percent came from the Middle East and 1.5 million bbl/d or 30 percent came from Africa. Angola was the principal African supplier followed by Sudan and Libya. In the United States, we are often quick to criticize China for a trade relationship with Africa that relies overwhelmingly on imports of raw materials. Even some African leaders have expressed concern about a trade relationship that consists primarily of sending raw materials, which one day will run out, to China in exchange for high value services, manufactured goods and consumer products from China.

We need to be careful, however, in making this argument. In 2010, the United States imported from the fifty-four African countries 2.3 million bbl/d or about 800,000 bbl/d more than did China. Raw materials also dominate U.S. imports from Sub-Saharan Africa with more than 80 percent consisting of energy products alone. Nigeria is the major U.S. supplier followed by Angola and the Republic of the Congo. Because of its huge oil imports from Africa and relatively modest exports to the continent, the United States has a sizeable trade deficit with Africa. China's trade with all fifty-four African countries is close to being in balance.

It is important, however, to put China's trade with Africa in perspective. China became Africa's largest trading partner in 2009, surpassing the United States. Total China-Africa trade in 2011 was about $150 billion. Although there has been a sharp increase in China-Africa trade in the past ten years, Africa only accounts for about 4 percent of China's global trade. On the other hand, China constitutes more than 13 percent of Africa's global trade. This disparity is accounted for by the fact that China's total trade is about three times the size of Africa's total trade.

The China-Africa trade issue of most concern is the huge disparity in bilateral trade with certain African countries. Almost 80 percent of African exports to China originate in five oil/mineral exporting countries: Angola, South Africa, Sudan, Libya and Republic of the Congo. Some fifteen African oil/mineral exporting countries have large trade surpluses with China. More than thirty mostly poorer African countries have major trade deficits with China. While China does allow 4,700 items to enter duty free from Africa's least developed countries, this policy has not yet resulted in significantly increased imports from Africa. The leaders of some of the African countries that have large trade deficits with China are concerned about the unbalanced trade relationship.

Land Leasing

There has been a considerable amount of inaccurate and exaggerated reporting on so-called "land grabs" in Africa. These deals almost never involve the purchase of land. They are long-term leases, albeit sometimes up to fifty years. China is often cited as being at the center of these deals. The most thorough research on this topic has been done by the Oakland Institute, an independent policy think tank based in Oakland, California. It has completed seven detailed case studies based on in-country research in Ethiopia, Sierra Leone, Mali, Mozambique, South Sudan, Tanzania and Zambia. While this still leaves many countries uninvestigated, these seven case studies provide a representative sampling and the most careful analysis so far of the situation in Africa.

The report on Ethiopia found that the only countries seeking land leases are Egypt and Djibouti while private investors from India and Saudi Arabia are also engaged. The Oakland Institute concluded that China was surprisingly absent from land investment deals in Ethiopia. It did point out that a Chinese company is prepared to sign a 25,000 hectare concession to produce sugarcane in the Gambela region. There have been widespread and unconfirmed reports of Chinese land deals in Mozambique. The Institute did not find truth to any of them. South Sudan has been widely criticized for signing questionable land leases; China is not involved in any of the projects. There are twenty-two land deals under discussion in Tanzania; China is not among the potential investors.

A Chinese company reportedly requested two million hectares in Zambia to cultivate jatropha for an agrofuel project. The Institute was not able to confirm that the request had even been made. Out of fifteen projects involving a half million hectares in Sierra Leone, a Chinese company has asked to cultivate 2,000 hectares of sugarcane and rehabilitate an old sugar mill. The China Light Industrial Corporation for Foreign and Technical Cooperation obtained a fifty year lease for 18,000 hectares in Mali for an undetermined agricultural project. The government of Mali has a 40 percent share in the project. This is the only Chinese land lease in Mali out of twenty-two projects involving sixteen foreign investors. In the seven countries investigated by the Oakland Institute, there were more land lease projects proposed by American investors than those from China.

To some extent, China set itself up for criticism as a "land grabber" in Africa. There apparently were discussions a number of years ago about leasing large tracts of land in Mozambique before China realized the political sensitivity of the deals and abandoned the idea. In 2007, Li Ruogu, the head of China's Export Import Bank, commented that many African countries had plenty of land and urged Chinese farmers to move to Africa. Li added there is no harm in allowing Chinese farmers to become farm owners in Africa, and he said the bank would fully support such migration. In 2008, China's Ministry of Agriculture prepared a document that argued China would not be able to maintain its own food security, and that it should secure land acquisitions overseas. This resulted in a sharp response from some Chinese officials that land acquisition overseas was not a feasible food security strategy due to logistics and political risk. By the end of 2008, the National Development and Reform Commission announced a twenty-year food security strategy that explicitly stated foreign land acquisitions would not be part of China's strategy. A number of Chinese officials subsequently made the point that China is not interested in acquiring land in Africa to grow food for Chinese. The issue has been muddied by the media because China has long had agricultural projects in Africa as part of its assistance program. These are generally small projects that grow food for indigenous populations.

Promotion of Democracy and Human Rights

U.S. support for democratization and the amelioration of human rights abuses in Africa are the topics of sharpest American and Chinese policy disagreement. The approaches of China and the United States are philosophically different and not likely to be bridged in the foreseeable future. China has a firm position that supports state sovereignty. It accepts whatever government is in power irrespective of the manner in which it obtained power or how it rules once it achieves power. Examples are China's strong support for Sudan and Zimbabwe. As a result, China has equally cordial relations with African democracies and autocracies. When there is a change of government in an African country, China has been adept at switching support to the new regime even when it represents a radical departure, whether it becomes more or less democratic, from its predecessor.

It is during political transitions, especially unplanned ones, from one government to another that Chinese policy seems to be most uncertain. For example, China was slow to make the transition from Gaddafi's Libya to the National Transitional Council (NTC). It eventually aligned itself with the NTC. The recent coup in Mali is an especially interesting case and may signal a nuanced change in China's approach. China initially urged that the situation in Mali be resolved through dialogue and consultation, a common and neutral response to regime change. A day later, a Foreign Ministry spokesperson said China opposes the unconstitutional takeover of power and called on all parties in Mali to return to normal order and uphold national unity and stability. While China probably took its cue from the position of the African Union, this statement does align its policy closer to that of Western countries.

In any event, China is not prepared to pressure African governments to democratize. It does not attach political conditions to its loans and foreign aid with the notable exception that a government must recognize Beijing and not Taipei. One Chinese official wryly commented to me: “No African leader has ever asked us to attach conditions to our aid.” Because its own system of government is not constructed along the lines of Western liberal democracy, it sees no point in urging African governments to follow such a course. It is just not realistic to expect China to encourage Western liberal democracy in Africa.

At the same time, China does not hold itself out to African countries as a model to follow. China and most African leaders understand that the differences between China and any particular African country are too great. China has more than 1.3 billion people. Nigeria, the most populous country in Africa, has about 155 million. China has a high national savings rate, a huge pool of cheap and compliant labor, state-targeted capital investments, a coherent continent-wide market with a single currency, internal market integration, a relatively well-educated and highly motivated workforce with a common language, investment from the Chinese diaspora, developed state institutions and political unity within a single ruling party to implement large-scale economic reform policies. No African country has even half these attributes. This has not, however, stopped a few African leaders from expressing interest in emulating China. Nevertheless, the fact is the differences are too great.

Nor will China be supportive of U.S. and Western efforts to encourage better human rights practices in Africa. The reason for this is China’s reluctance to attach political conditions to its ties with African countries and its internal human rights practices. Beginning in the mid-1990s, African countries’ political support played a key role in Beijing’s successful eleven-year campaign to avoid censure for its human rights record by the UN Commission on Human Rights. When Tibet became an issue in 2008, China leaned on the Africans to remain silent or even make supportive statements. They did. More recently, China has been sensitive about criticism of its harsh policy toward the Uighur people in the Xinjiang Uygur Autonomous Region in western China. Again, African leaders have been careful to avoid all criticism of China’s response to the Uighurs. African countries can depend on China to avoid raising controversial African human rights issues in the renamed UN Human Rights Council and on occasion to even support them when they are criticized by Western countries. This practice also works in reverse.

African Political Issues Where U.S. and China’s Interests Overlap

There are controversial and vexing political and security issues in Africa where U.S. and China’s interests intersect. While China will be careful to align its policy with the majority view in the African Union and the Arab League in those African countries that are members, the United States should try to leverage Chinese support on those issues where interests overlap. As a general principle, both the United States and China support political stability in Africa. In the case of the United States, this usually, but not always, occurs in the form of support for existing governments. In the case of China, it almost always results in support for existing governments.

Both the United States and China support all six UN peacekeeping operations in Africa: Liberia, Democratic Republic of the Congo, Western Sahara, Darfur in Sudan, South Sudan and Côte d'Ivoire. As of the end of February, China had more than 1,500 troops, experts and police assigned to these six UN peacekeeping operations, more than any other permanent member of the UN Security Council. By comparison, the United States had thirty-three personnel assigned to the six operations. On the other hand, the United States pays for a significantly higher percentage of the total cost of the UN missions. By all accounts, the Chinese personnel assigned to the peacekeeping operations in Africa have performed well. It is in the interest of the United States for China to continue its support of these UN-led efforts. In the case of the operation in Liberia, the United States and China even collaborated in building the barracks for UN troop personnel. UN peacekeeping operations in Africa are strong candidates for expanded cooperation between the United States and China.

While there are tactical differences between China and the United States in countering terrorism and al-Shabaab in Somalia, the overall goal is the same. Both the United States and China have been supportive of the Transitional Federal Government and both countries want to see the establishment of a national government that has the widespread support of the Somali people and control of the entire country. While there are many other important actors in Somalia, it is important to encourage China to become a more active participant in the solution.

Both the United States and China have an interest in ensuring peace in Sudan and South Sudan and the full implementation of the Comprehensive Peace Agreement that led to the creation of South Sudan. China has an added interest—a multibillion dollar investment in oil infrastructure and the fact that it obtains about 6 percent of its imported oil from South Sudan and Sudan. The recent shutdown of oil production in South Sudan, which controls about 75 percent of production coming from both countries, has directly impacted China. But it also has an indirect impact on the United States by removing supply from the world market and contributing to the increase in global oil prices. The disputes between Sudan and South Sudan are complex and involve far more than oil. They have the potential to cause a major new conflict between the two countries. This is not in the interest of either the United States or China. The United States has considerable influence with South Sudan but little with Sudan. China has substantial influence with Sudan but more limited leverage with South Sudan. Working with other key outside interlocutors, this situation is ready made for close U.S. and China collaboration.