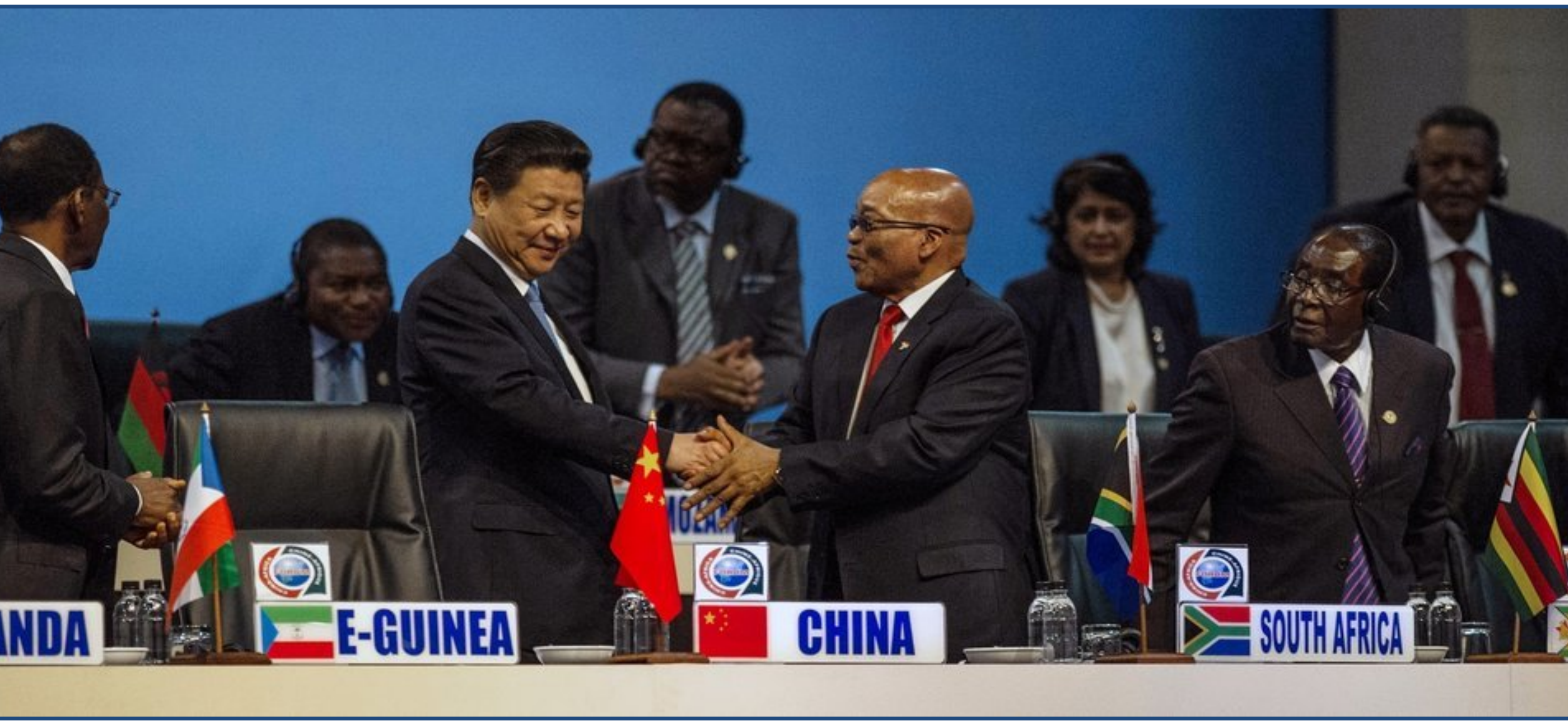
REPORT



Chinese Engagement in Africa
Understanding the Risks and Opportunities for the European Union

China and other emerging actors are shifting global power structures, but understanding the challenges and opportunities at hand for the European Union requires a more critical analysis of broad narratives, which all too often present Africa as a homogeneous entity.

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China's vivid contemporary engagement with the African continent, built upon the country's historical support to sub-Saharan African anticolonial liberation movements in the early 1960s has increasingly played a key role shaping and strengthening economic development in Africa. Over the past two decades, Beijing has strategically wielded its ever growing economic power across the continent by fostering new investment, trade and development opportunities at unprecedented rates. Trade between Africa and China increased from $2.5 billion in 1995 to $215 billion in 2014, and $128 billion 2016.[1] Chinese lending increased from 130 million in 2000 to $11 billion in 2017.[2]

[1] Johns Hopkins University China-Africa Research Initiative. "Chinese Trade Between Africa Countries." (2018). Available at: http://www.sais-cari.org/data-china-africa-trade.
[2] Yunnan Chen, and Jyhjong Hwang. "Chinese Loans to Africa." China Africa Research Initiative, Johns Hopkins University. (2017). Available at: http://www.sais-cari.org/data-china-africa-trade.

Understandably, this rapid expansion continues to trigger alarm bells throughout Western political and academic circles, particularly amongst financial institutions that once held a monopoly on major sources of concessional finance. While the recent 2018 FOCAC summit did not bring a radical departure from its predecessors, the announcement of another $60 billion of investment brought the debate over China's engagement in Africa back into the media spotlight.

The financing, which is largely composed of concessional loans, has launched fresh allegations of "debt-trap diplomacy," prompting a second announcement of undisclosed debt-relief for the poorest countries. Conversely, some analysts argue that debt-risks are ultimately outweighed by the positive benefits of increased investment, such as fostering competition and closing the infrastructure deficit.[3] A wider range of academics are concerned that China's absence of rigorous conditionalities will undermine the standards set up by OECD countries[4], which recent critics argue will ultimately diminish African interest in a renewed EU-AU partnership or a Post-Cotonou Agreement.[5]

Unfortunately, while many of these analyses are correct in specific cases, they largely fail to appreciate the nuances and complexities of China's engagement in Africa, and fall into the ubiquitous trap of considering Africa as a homogeneous entity. It is clear that China, and other emerging actors are shifting global power structures,[6] but understanding the challenges and opportunities that these new dynamics present for the European Union requires a more critical analysis of broad narratives.

Country by Country Analysis of Chinese Lending:

China's general lack of transparency regarding loan terms, concessionality, and exact disbursements makes precise comparative data analysis between Chinese and Western finance flows difficult.[7] Nevertheless, a brief review of the available qualitative and quantitative data[8] on Chinese loans in Africa leads to one key conclusion: the impact of additional and diversified financing varies significantly on a country-by-country basis. By extension, this allows for a more precise analysis of situations where Chinese loans and EU development interests are likely to compete.

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[3] Alli, Andrew. "How to separate the myths and realities of China's role in tackling Africa's infrastructure deficit." Quartz Africa. (2018). Available at: https://bit.ly/2O9zYIm

[4] Van Ham, Peter. "China's rise and Europe's fall: time to start worrying." European View. 10:107-117. 2011. See also: Tull, Denis. "China's Engagement in Africa: Scope, Significance and Consequences." Journal of Modern African Studies. 44.3. (2006).

[5] Euractiv. "China's investment largesse may dwarf EU in Africa." (2018). Available at: https://www.euractiv.com/section/africa/news/chinas-investment-largesse-may-dwarf-eu-in-africa/. See also: Financial Times. "The Chinese Model is Failing Africa." (2018). Available at: https://www.ft.com/content/ca4072f6-a79f-11e8-a1b6-f368d365bf0e.

[6] Kappel, Robert. "The Challenge to Europe: Regional Powers and the Shifting of the Global Order." Intereconomics. 5. (2011).

[7] Kopinski and Sun note that China's definition of concessionality is broader than DAC standards, and find that the China Development Bank's loans in most cases do not meet the DAC's concessionality criteria. The China Exim Bank is the only institution permitted to disburse concessional loans to African governments. See: Kopinski, Dominik; Sun, Qian. "New Friends, Old Friends? The World Bank and Africa When the Chinese are Coming." Global Governance. 20: 601-623. (2014).

[8] Johns Hopkins University China-Africa Research Initiative. (2017).

A brief analysis of the China's loan data between 2000 and 2017 reveals one key preliminary finding: Chinese loans do not flow to most of the least industrialized African countries, including many with natural resources. During this period, countries such as Burundi ($79m), Central African Republic ($27m), Liberia ($50m), Niger ($347m), and Madagascar ($365m), received small amounts of the total $117 billion between 2010 and 2017. Countries such as the Gambia and Burkina Faso received no Chinese loans during this period. In 2016, Official Development Assistance (ODA) made up roughly 25% of the Gross national income (GNI) in Burundi and 28% in Central African Republic. In Rwanda, where ODA makes up 14% of GNI,[9] China turned down several requests for loans.[10] Many of these countries, such as the Gambia, Niger, and Rwanda, the EU enjoys strong relations with regard to development cooperation and national reforms.

A second finding shows that a vast majority of Chinese loans goes to Africa's largest and strongest economies. The five largest sub-Saharan economies comprise of 22% of loans between 2010 and 2017, including $37.7 billion in Angola, $9.2 billion in Kenya, $4.2 billion in Nigeria, and $3.5 billion to South Africa. While Sudan received roughly $5.6 billion in Chinese loans between 2000 and 2010, it has since received just $871 million in subsequent years. Despite the differences between these economies, it is worth noting their their relative strength diminishes both constraints on access to financing, as well as the influence of traditional development cooperation on policy.[11] In Angola, Sudan and Nigeria, development aid makes up less than 1% of GNI, and Kenya is 3%.[12]

A final finding shows that the other significant bulk of Chinese financing goes to smaller, but rapidly growing African markets, all of which show decreasing aid dependency and relatively high debt. Between 2010-2017, China loaned almost $27 billion of its $116 billion to Mozambique ($2.4bn), Tanzania ($2.2bn), Uganda ($2.8bn), Zambia ($6.08bn), Ghana ($2.4bn), Ethiopia ($11.04bn). Interestingly, all of these countries have reduced their ODA to GNI by 50% of more in the past ten years. Between 2006 and 2016, Tanzania's ODA as percentage of GNI dropped from 10.2% to 4.9%; Uganda from 16.4% to 7.4%; Zambia from 12.7% to 4.6%; Ghana from 6.1% to 3.1%; and Ethiopia from 12.3% to 5.5%.[13] In comparison, the average ODA to GNI percentage for Sub-Saharan Africa dropped from 4% to 3% during the same time period.

This sharp decline in aid dependency does not imply decreased capacity for EU cooperation, but it offers a clearer picture of where Chinese and EU priorities may compete as African countries develop stronger autonomy and agency over their own development. In Ghana, Uganda and Tanzania, for example, existing research shows that governments rarely choose between Chinese assistance *or* traditional foreign aid, but rather court both at the same time.[14] This trend has already raised tension between the Chinese and traditional

[9] World Bank Data Bank. "Net ODA as Percentage of GNI." (2018). Available at: https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS
[10] Grim, Sven; Hackenesch, Christine. "China in Africa: What challenges for a reforming European Union development policy? Illustrations from country cases." Development Policy Review. 35.4. (2017).
[11] Ibid. Grim and Hackenesch argue that in countries like Angola, the EU and China act purley as economic competitors. European countries such as France, the UK, Portugal and the Netherlands also comfortably and opaquely do extensive business alongside Chinese companies.
[12] World Bank. (2018).
[13] World Bank. (2018).
[14] Swedlund, Haley. "Is China Eroding the Bargaining Power of Traditional Donors in Africa." International Affairs. 93.2. (2017).

donors, particularly regarding debt-sustainability, which is already a major concern in Mozambique, and a growing problem in Ghana and Zambia.[15]

Risks and Opportunities for the EU:

Ultimately, these correlations highlight that the financing needs and preferences of Africa's growing economies are changing, and underline the necessity for the EU to reevaluate its approach to economic and development cooperation. Ideally, the EU should look for avenues of potential cooperation with Chinese banks, however it should also look to better define its competitive advantage in this third category of countries by exploiting specific drawbacks of Chinese investment.

It is no surprise that African leaders in rapidly growing countries, many of whom are frustrated with the pace of Western finance institutions, are sometimes willing to sacrifice strict rules in favor of quick results. Abdoulaye Waye, the former president of Senegal, famously noted that contracts with the World Bank "would take five years to discuss, negotiate and sign," whereas with the Chinese authorities "it takes three months."[16] The expedited rate of has invariably led to several successes,[17] but it is also the direct cause of many of the challenges emblematic of Chinese loans.

From Ghana's cancellation of half of a $3 billion loan that it later realized was at a fully commercial rate,[18] to Mozambique's persistent struggle with Chinese company's illegal activity, China's overall lack of transparency and accountability mechanisms add significant risk to doing business. As Joshua Kurlantzick observes, "In its aid, infrastructure building, and business deals, China also demonstrates little respect for transparency and other aspects of good governance."[19]

Furthermore, despite President Xi Jingping's (and Western critics) frequent claims that financing comes without any conditionalities,[20] the reality is somewhat more complex. China's approach to economic soft power generally avoids direct interference in domestic affairs, but financing is still subject to several pre-conditions, such as minimum sourcing from China or reserved amounts for Chinese contractors. Ghana's $771 million contract to build the Bui Dam was awarded to Sinohydro Corporation, the same Chinese company that was contracted to build the Karuma Dam in Uganda.[21]

With Chinese financing overtly tied to building revenues for Chinese companies that are repeatedly linked to corruption risks, the EU has a unique opportunity to pursue a more attractive investment strategy that puts local businesses at the forefront. The EU should also concentrate on improving financial governance, institutional capacity, and transaction advice

[15] Quartz Africa. "Africa's growing public debt problem may be worse than we thought" (2018). Available at:https://bit.ly/2x7zXxE
[16] Abdoulaye Wade. "Time for the West to Practise What It Preaches," Financial Times, 23 January 2008.
[17] Such as the Bui Hydro-Power Dam in Ghana, which was stalled for several months under the World Bank, before it was refinanced and quickly finished by the Chinese.
[18] Swedlund. (2017).
[19] Joshua Kurlantzick. "Charm Offensive: How China's Soft Power Is Transforming the World" (New Haven, 84. (2007).
[20] China Daily. "Full text of Chinese President Xi Jinping's speech at opening ceremony of 2018 FOCAC Beijing Summit." (2018). Available at: http://www.chinadaily.com.cn/a/201809/04/WS5b8d5c25a310add14f389592.html
[21] Ibid.

in key countries such as Mozambique and Uganda, to fight corruption and illicit financial flows. These priorities should be fundamental components to the revised European Fund for Sustainable Development (EFSD+), which is slated for significant expansion in the next EU Multiannual Financial Framework.[22] It is also essential that the EFSD+ includes a renewed commitment to responsible business practice, which should be seen as a strong competitive advantage for all partners.

Conclusion:

It is clear that the implications of China's engagement must be considered against the backdrop of existing EU-African relations, which are often criticized as unequal and paternalistic, and built upon a donor-recipient hierarchy that overlooks African interests. The lackluster outcome of the 2017 AU-EU Summit showcased a limited capacity for African and European leaders to agree to shared priorities, with institutional deficiencies, post-Colonial frustration, and empty rhetoric underpinning the lack of meaningful commitment.[23] These challenges underpin the necessity for an innovative, balanced EU-Africa framework that moves past traditional aid, and focuses on targeted investments and reciprocal commitments.

By moving past broad analyses, we see that the full context of China's engagement in Africa offers some wisdom for how the EU should build this stronger cooperation. Overarching claims that China's financing will distort African relations with traditional donors are largely overstated, but the decreasing aid dependency of key countries highlights the need for a new EU approach that emphasizes an equal-footing relationship and greater decision-making to African leaders. In light of the risks presented by Chinese propensity for corruption and irresponsible business practice, the EU should seize the opportunity to promote strong governance and capacity building in the next MFF to maximize sustainable competitiveness amongst African and European firms.

In the select countries where China is investing heavily, diversified financing options should strengthen each government's political agency, allowing them them to determine terms of business. From an economic perspective, increased competition generates better value and productivity, but this will require African businesses and governments to ensure full control and agency over their projects, and collectively develop long-term strategies to leverage new assets to create local employment and regional trade.[24]

In conclusion, Kerry Brown astutely notes that the most concerning aspect of China's engagement in Africa is its overt promotion of national self-interest,[25] and it is important for EU leaders to recognize that Europe has been equally guilty of the same crime for decades. As the EU and Africa prepare to reshape their relationship within the context of the upcoming post-Cotonou negotiations, a successful outcome will depend on a true

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[22] European Commission. "Proposal for a Regulation Establishing the Neighborhood, Development and International Cooperation Instrument." 2018. Available at: https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-neighbourhood-development-international-regulation_en.pdf

[23] Brussels International Center for Research and Human Rights. "Lessons Learned from the AU Summit." 2018. Available at:https://www.bic-rhr.com/lessons-learned-from-the-fifth-au-eu-summit/

[24] Alli. (2018).

[25] The Economist. "China's Exceptionalism Rewrites the Western Political Playbook." 2018. https://www.economist.com/open-future/2018/06/13/chinas-exceptionalism-rewrites-the-western-political-playbook

commitment to mutual respect and a firm understanding that genuine multilateralism is the strongest solution to global challenges. The EU will undoubtedly face increased competition as Beijing's ambitions rise, but by placing African interests at the forefront of renewed, robust cooperation, both continents have the greatest chance of mutual prosperity.