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## **Africa's Business and Development Relationship with China: Seeking Moral and Capital Values of the Last Economic Frontier**

### **Abstract**

Relationships between China and Africa were formally established in the 1950s but trade and cooperation dates back to over 100 years. Recently, as China's economy continues to grow and transform into a major global player in all spheres, it is becoming clear that China increasingly needs to secure reliable sources of resources to support its economic development. For so long, investors have seen Africa as risky, unsafe and backward. But it is also adventurous and can be very lucrative in terms of returns and profits. Although attractive business can mostly be in energy, oil, and other raw materials, manufacturing, infrastructure development, supplies and services are equally very important.

Given the complexity of doing business in Africa and coupled with the modernization and need for resources that is driving China, the impact that it brings to Africa can be in the form of trade, FDI, etc. Over the past decades, China has become an influential player across Africa's economy and development. This trend has brought along opportunities and challenges. Having experienced a history of external exploitation, not quite successful economic experimentation and more recently rapid market-based development, China is in a unique position to understand the challenges and complexities facing Africa. To do business in Africa and to carve a development framework, one is confronted with many options. It can either be country specific or be based on regional set-up. While opportunities abound, the challenges are enormous.

Understanding these challenges, African leaders formed the New Partnership for Africa's Development (NEPAD) under the aegis of a renaissance. Set to rework the relationship between Africa and the developed world based on a partnership on a common vision, the NEPAD framework fits into China's renewed diplomatic drive with Africa emphasizing mutually beneficial cooperation, friendship, win-win cooperation, peaceful coexistence, etc. In addition to these, there is the pledge for a coordinated sustainable development of the global economy and opening up both markets and help debt relief to enhance Africa's capacity. It is this new partnership that forms the basis for engagement particularly in trade, investment and strategic partnership.

This type of engagement between China and Africa can offer good lessons for Africa's development. The paper investigates the historical context of China Africa relationship, the framework for engagement especially the Forum on China-Africa Cooperation (FOCAC), the need for a strategic agenda and the role that NEPAD can play. It is this type of understanding that can help promote business relationship that will enhance long term sustainable development of China and Africa as a whole.

## **Introduction**

Historically, China and Africa have been friends. Official friendship dates back to the founding of modern China. At that time, China cultivated friendship with a number of African countries and provided both moral financial and political support for liberation struggle and for their fight for independence. Formal establishment of diplomatic relationship followed the Bandung conference of 1955 in Indonesia. At that conference, Asian and African countries came together and the result was the creation of the non-aligned movement.

The Asian-African Conference of 1955 brought together Asian and African states, most of which were newly independent. The conference's stated aims were to promote Afro-Asian economic and cultural cooperation and to oppose colonialism or neocolonialism. Since then, relationships between the two continents on both bilateral and multilateral levels have blossomed. It was after this conference that Egypt became the first African country to establish formal relationship with China in 1956. Today, about 45 African countries have formal diplomatic relations with China. Following the success of the Bandung conference, a number of African countries became independent. Seeing this, in 1963, Premier Zhou Enlai undertook a historic African tour for two months from December 1963 to February 1964. This visit, promoted Sino-African relations to a higher level. Today, one important aspect of China's foreign policy is to "strengthen and develop a long term, stable and be forward looking with ties with African nations in the 21<sup>st</sup> Century" (He, 2003).

While it is easier to chronicle the diplomatic and political relationships between China and Africa, trade (and investment) history goes back to a number of years. While such clear thesis can be postulated to chronicle the diplomatic and political relationship between China and Africa, trade contact between the two sides has a longer history. There is anecdotal evidence that shows that China extended its trade via the “silk road” to Africa with Pharaoh and Cleopatra boosting their wardrobes with silk garments that originated from China. There has also been evidence of remnants of porcelain wreckage off the coast of Zanzibar as well as records of the voyages undertaken by General Zhang He some 600 years ago. According to Lambard (2007), Beijing’s investment in Africa dates back some six centuries, when explorers set off from Asia across the Indian Ocean.

In contemporary times however, continued strong economic growth, globalization and partly global political dynamics have encouraged China to be more proactive and forge new approach to its relationship with Africa and indeed the rest of the world. Already in 1983, China had proposed four principles for developing economic cooperation with African countries. These principles included “equality and mutual benefit, pursuing practical results, adopting various ways and seeking common development.

Understanding this, recently in a speech at the University of Pretoria in South Africa, President Hu Jintao declared that over the years, the Chinese and African peoples shared “weal and woe” and forged a closed bond of empathy and friendship. He further underlined the fact that “the growing trend towards multipolarity and economic globalization presents mankind with both opportunity of development and severe challenges”.

According to President Hu, China has pledged to support Africa's development and designed to strengthen Africa's capacity for self development and improve the welfare of the African people. This has continued to underline and form the cradle of China's Africa policy, effectively allowing China to seek the opportunity for development and delve on the challenges.

China's growth and economic development is fuelled by growing industries that demand more energy and raw materials (which Africa can provide). A cursory look at China's import of energy and oil resources shows that it imports between 25% to 30% of its oil from Sub Saharan Africa, mostly Sudan, Angola, Nigeria, Gabon, etc., (Smith, 2006). In addition to sourcing oil supplies from Africa, it has also pursued long-term energy supply agreements with other countries like Iran, Indonesia, Saudi Arabia, Russia, Venezuela, etc.

China has also bought or acquired rights on copper and other mineral resources in Zambia, Democratic Republic of Congo, etc. Although oil, gas and other mineral resources appear to dominate trade between the two sides, Chinese businessmen are now increasingly looking at Africa as a new market destination for their other products. As this business and trade relationships became prominent, it has generated interest and commentaries among Africa's "traditional" friends, the colonialists and western powers. In a recent report to the US congress from the Secretary of Defence, it observed that "China has used economic aid, diplomatic favors and in some cases, the sale of military technology to secure energy deal" (The CQ Researcher, 2005).

Generally however, China has established trade relationships with almost 60 African countries and set up more than 150 trade companies and agents on the continent. Already, China's interest and activities in Africa is resulting in major development in global politics. It is also evolving into a new geography of trade and cooperation outside of the traditional North - South linkages. In attempting to understand these developments, pertinent questions will need to be answered. Are China - African trade and investment relations following a pattern of South - South cooperation? Is it guided by development needs of both sides? Or are they just replications of the classical North - South model, where Africa's hope of building a manufacturing sector is set to get another beating? Indeed is this relationship a replica of what it used to be with the west?

Because of their historical relationship with Africa, many western countries see China's activities in Africa as negative. Given this as the case nonetheless, some African leaders and indeed many African scholars perceive China's activities as a welcome trend. Scholars have observed that in the recent years, such activities have added value to the hitherto undervalued Africa resources especially in agriculture (Fan, 2007) according to a United Nations Economic and Social Report of 2006 titled "Overview of the Economic Report on Africa 2006: "Recent economic trends in Africa and prospects for 2006" African economies grew by up to 5.3 per cent. This growth, have been consistent in recent years and might be partly fuelled by the renewed engagement with China.

In turning to traditional or old friends, China has identified and vigorously is pursuing what is being seen as "resource diplomacy". In pursuing this renewed diplomatic drive with Africa in particular, China has emphasized beneficial cooperation, friendship, win - win cooperation etc., (Chang, 2006). As many countries in Africa are modernizing and

improving in governance, China is gradually readjusting its policies to ensure that economic and trade cooperation between the two sides flourishes.

As part of China's strategy into Africa, it created the Forum on China - Africa Cooperation (FOCAC) in 2000 where it brought together leaders from both sides. It serves as the official forum between the People's Republic of China and the states in Africa. The first ministerial conference under the aegis of the FOCAC was held in Beijing in October 2000. At this inaugural meeting, more than 80 ministers from China and 44 African countries attended the meeting. It was at that time that the Beijing Declaration of the Forum on China-Africa Cooperation and Programme for China-Africa Cooperation in Economic and Social Development were promulgated and adopted to serve as the basis for future cooperation. Following the foundation laid at the Beijing conference, the Second Ministerial Conference was held in Addis Ababa, Ethiopia, in December 2003. The forum at that time adopted the *Addis Ababa Action Plan* (2004-2006). In November 2006, the FOCAC Summit and the third Ministerial Conference were held in Beijing. In order to crystallize the formal relationship, the theme of the FOCAC summit in 2006 was friendship, peace, development and cooperation. It is worthwhile to note that it was development and cooperation that were highlighted and not the donor or aid themes that often characterize such meetings where Africa is featured.

With this new dispensation where China has become a major player in the global economic structure and increasing modernization and globalization, it can be a role model for African communities that are seeking to establish development frameworks for economic prosperity, growth and overall development. In addition to opening up of both

markets, such cooperation can be mutually beneficial. The forum provided a platform for further understanding the opportunities and challenges that can help articulate development frameworks for a coordinated sustainable development of the global economy given that China and Africa together is home to about a quarter of the world's population.

Although a lot of attention is being paid to China's activities in Africa, its trade links with Africa (particularly with Sub Saharan Africa) is relatively small in relation to its trade with the rest of the world. But in reality, the trade volume is growing very rapidly. If this growth is sustained the impacts on the economy and development can be substantial. According to President Kufuor of Ghana, "with rich resources, huge market potential, technological know-how and accessible capital, Africa and China can achieve a win – win cooperation; thus giving impetus to the drive towards a sustainable development of the global economy.

As the enthusiasm for enhanced relationship is exuded on both sides, there is the need to understand and harness the potential opportunities opened for African countries by China's rapid trade expansion and the renewed foreign policy strategy. There is also the need for the Africans to understand China, its intentions and modes of operation. At the summit in Beijing, the discernible language in the structure of agreements mostly underlined "the two sides: agreed, welcomed, reaffirmed, recognized, decided, etc." This shows a clear difference from the donor language that normally accompanies bilateral and multilateral agreements with Africa by its traditional western allies and development institutions.

In analyzing the recent pattern of Chinese involvement with trade, business and manufacturing and production in Africa, four major trends can be elucidated: 1) Investment in energy and natural resources; 2) Infrastructure projects; 3) Diversified global production networks; 4) Small scale entrepreneurial investments. For the purpose of in depth understanding, the focus will be on energy and natural resource issues, infrastructure projects and small scale investment which will all be discussed under China's quest for resources. Subsequently, opportunities for development, potential of Africa's markets, the roles of aid and foreign direct investment will all be considered for their moral and capital values for Africans. It is expected that understanding these issues can help promote business relationship that will enhance long – term sustainable development of China and Africa as a whole.

### **China's quest for resources and trade**

This China's interest in resources has already resulted in a major development in global politics, as well as developing a new geography of trade and cooperation outside of the traditional North – South linkages. China has consistently implied this new relationship as an extension of the South – South cooperation framework first promoted in the 1950s. Recently, the new framework for cooperation exemplified by a series of FOCAC meetings is increasingly seen as Beijing's efforts to enhance the South – South cooperation.

Although arguably, China has emerged as an economic superpower, it continues to portray itself as a developing nation. The former President of the People's Republic of China, Jiang Zemin eloquently and numerously indicated that “China is the biggest

developing country and Africa, the continent with the largest number of developing countries". This therefore puts China and Africa on a par in their quest for economic development.

However, the reality these days is that the world economy is being shaped by China. This is done in earnest by development and improvement on new technologies, services, business and trading relations and poverty eradication strategies. China has since emerged significantly on the international trade scene and this to many people, presents a threat to the traditional western industrial dominance. This notwithstanding, experts say, China's share of manufacturing industry market could grow and reach about 25% in the next two decades.

Although many analysts have viewed China's trade activities with Africa as one way benefit, it has shown unprecedented growth and continuously being seen as beneficial to the two sides. In 1995, the trade volume was about \$3bn and exponentially rose to over \$55bn by the end of 2006. With this trend, China has already become the third trade partner with Africa behind USA and France. As these figures show exponential increase, it is believed that China's trade in Africa is responsible for about 20% of its economic growth (Tull, 2006).

In quantifiable terms, about 10% of Sub Saharan Africa export went to China in 2005 (Table 1). Oil and mineral resources dominate this export as about 5 countries accounted for over 50% of the imports and ten countries take up almost 90% of the total imports. Africa's resource-rich countries are in a position to provide an ample percentage of China's requirements. In terms of China's imports from Africa, nine of its ten most

important trading partners are resource rich countries. This oil and mineral import from Africa represented 4% of China's total energy needs for 2005. In fact oil imports from Africa represented about 15% of all oil consumed in China in 2006.

**Table 1** China's top Ten African trading partners by imports

<b>African Countries</b>	<b>Imports (US\$m)</b>	<b>% total</b>
Angola*	3422.63	27.4
South Africa	2567.96	20.6
Sudan*	1678.60	13.4
Republic of Congo	1224.74	9.8
Equatorial Guinea*	787.96	6.3
Gabon*	415.39	3.3
Nigeria*	372.91	3.0
Algeria*	216.11	1.7
Morocco	208.69	1.7
Chad*	148.73	1.2
<b>Total</b>	<b>11043.72</b>	<b>88.4</b>

Source: International Monetary Fund (May 2005)

\* Oil exporting countries

Africa is arguably the most resource - laden continent, with every primary product required for industrial production. With regards to oil production, Africa accounted for more than 10 million of a global 84 million barrels per day production in 2005. In fact, Africa owns around 8% of the world's oil reserves and 11% of world oil production (van de Looy, 2006). African oil is most sought in global markets as most of it is light, sweet, highly profitable crude, mainly off-shore. In fact, about 85% of the world's new oil reserves found in 2001 – 2004 were on the west and central coasts of Africa (Sautman, 2007). In comparing this resource quest to that of the traditional western allies, the USA for example imported 60% of its 20 million bpd of oil used in 2005, 16% of that amount comes from Africa, a figure expected to rise to 25% by 2015. China on the other hand, imported 40% of the 7.2 million bpd of oil it used in 2005, 30% of that amount is from Africa. More than 60% of the oil production of Sudan, Africa's

third largest producer, is sent to China (Table 2). In fact according to the multinational British Petroleum (BP), Chinese imports of African Oil increased more than 71% between 2003 and 2005 (Eisenman, 2007).

**Table 2 Summary of Oil production (in some African Countries) and export to China**

Country	Oil Reserve (Billion Barrels)	Oil Production (bpd)	Export to China	% of Revenue for the country	% of GDP	% of Export
Angola		2mill bpd	25%	90%	>40	NA
Equatorial Guinea	1.28	371,700 bpd	NA	NA	NA	90%
Gabon	2.5	230,000 bpd	NA	60%	>40%	NA
Republic of Congo	1.5	235,000 bpd	NA	80%	NA	90%
Nigeria	35.2	2.5 mill bpd	NA	80%	NA	NA
Sudan	563million	500,000 bpd	NA	NA	NA	NA

### **Aid, Trade and Investment**

In the 1970s, Africa's share of the world trade was 5% and in 2005 it was only 1.5%. This is in part as a result of instability of African governments, neglect in strategic investment and in partial dependence on aid from traditional western allies. Consequently, aid and investment has been narrow, mostly in oil and other mineral resources.

While other regions gradually improved in trade, economic growth and development, Africa's case was appalling. Instead of strategic investment in Africa's economy, it was aid that was channeled into countries and most of it was tied to condition. Such conditions did not warrant African governments to venture into strategic trade and

investment, neither did it allow for nations to follow their own policies of economic growth and development. It was often also not possible to carve and formulate development frameworks. As this trend continued, China gradually opened up its economy and proffered African governments an alternative form of engagement. To some extent, China's aid and loans are devoid of conditionalities when compared to those imposed by other countries and development institutions. Given this as it is, trade and investment in Africa by China continue to follow a strategic trajectory.

According to studies, there were already over 800 Chinese enterprises in Africa in 2005. Although Chinese investment is growing and diversifying, it is still targeted at some specific sectors (Table 3). In 2004 for instance, companies from China invested about \$135m in Africa and in the first ten months of 2005, \$175m went to Africa (Sautman, 2007). Generally, Africa's average annual FDI intake in 2001 – 2004 was \$15 - 18b, despite Africa providing the world's highest returns on FDI, averaging 29% in the 1990s and 40% in 2005 (Wang, 2007).

**Table 3**      **China's investment and FDI flows by sector in Africa**

<b>Sector/Industry</b>	<b>Number of projects</b>	<b>Investment value (\$ Millions)</b>
Agriculture	22	48
Resource Extraction	44	188
Manufacturing	230	315
▪ Machinery	20	16
▪ Home appliances	36	25
▪ Light industry	82	87
▪ Textiles	58	102
▪ Other manufacturing	34	86
Services	200	125
Others	3	6
<b>Total</b>	<b>499</b>	<b>681</b>

*Source:* Based on information provided by MOFCOM

Taking a cue from traditional African business partners, China's African investment is also concentrated in a few sectors. For example, in 2005, \$316 million was invested in Zambia, primarily in the copper mines and \$230 million in South Africa. Based on planned investments, however, China may become one of Africa's top three FDI providers in the coming years. For the moment though, China's trade with Africa reflects only a tiny part of her 2005 \$1.4 trillion world trade, but this figure is fast growing.

Since 2001, neo-liberal principles have been embodied in the New Partnership for African Development (NEPAD). Based on the idea that there is no alternative to neo-liberalism and that only integration into the world market can promote growth and economic development, the African leaders endorsed the NEPAD initiative created for Africa by Africans.

It is based on this that the African nations endorsed the NEPAD initiative. Prior to the establishment of NEPAD, there are international and regional organizations like Economic Community of West African States (ECOWAS), Southern African Development Community (SADC), etc. For the moment though, it is not clear how these regional organizations can be factored into the increasingly important China - Africa relationship. Already, China has signified interest in NEPAD and declared that it is willing to work within the provisions of the NEPAD framework to achieve a win-win situation for Africa and China.

## **The Foreign Direct Investment (FDI)**

It has been more than twenty five years since China began to open up and adopt market-oriented economic reforms. Before 1990, only a few Chinese FDI projects exceed \$5m and none were undertaken in Africa. Over the years, China's FDI outflows have grown significantly during the past two decades. This has grown from less than \$100 million in the 1980s to almost \$12 billion in 2005. With the rapid expansion of the Chinese economy, strong growth in the country's overseas investment, driven by various motives, this is set to continue in the coming years. In fact, it is forecasted that the country will become one of the world's largest FDI sources in the not too distant future. In the current global market place, FDI is important and is relevant to most economies especially in emerging and growing economies like Africa where China is now a major player.

While market seeking FDI is the most common and driven by knowledge, proximity, etc., Africa can attract more FDI if infrastructure can be improved. Other factors that can help attract FDI are efficiency, knowledge base, skill workers etc. For the moment though, Africa attracts mostly natural resource motivated FDI and increasingly in manufacturing as seen in Table 3.

In understanding this sequence of aid, trade, FDI, etc., there are certain pull and push factors that can suggest potential for FDI into Africa. The pull factors primarily need to be better recognized by foreign investors and in particular by Chinese firms who are relatively new investors in the African markets. As far as Africa is concerned, these factors include: access to an under-served market, location-specific advantages to access natural resources, cheap and abundant labor; investment opportunities in infrastructure

and other government contracts; and the possibility to forge closer relations with African firms so as to better exploit the markets and resources that Africa offers.

In recent years however, with various changes in government, many African nations have taken a number of steps towards improving their image and offering increased incentives and institutional support to foreign firms investing in their countries. Investment promotion agencies (IPAs) in African countries provide information and initial contacts as well as other initial support. Some countries currently provide one - stop – shops for business and investment purposes. Others provide tax relief and concessions, while quite a number of IPAs organize investment forum and annual road shows and exhibitions to attract prospective investors to their countries.

National efforts to improve the investment climate of African economies further benefits from regional arrangements, such as the East African Community (EAC), Southern African Development Community (SADC), Economic and Monetary Community of Central Africa (CEMAC), Economic Community of West African States (ECOWAS), etc. These have received further impetus by the creation and adoption of the NEPAD framework. This therefore provides access and increase the regional market size as well as the predictability, stability and transparency of the environment for investment in Africa.

China started to open its economy to FDI in the late 1970s and for so long has been the largest recipient. Experience with respect to China's FDI in Africa and China's own experience in using FDI to boost national economic development are both relevant for African countries seeking to attract and benefit from FDI. With the looming cooperation and growing trade and investment, African nations will benefit from the experience of

China. In terms of the absolute amount of flows, Africa has become an important FDI location for Chinese enterprises only in recent years. As of 2005, China's FDI stock in Africa had reached almost \$1.6 billion, with increasing outflows to the continent in recent years and is expected to continue in the coming years.

### **Opportunities and potentials for development of African markets**

Although historically Africa has been closely aligned to the west and their financial institutions, they have not invested or financed infrastructure and major development projects (Sogge, 2002), at least in the last 30 years which was tersely alluded to by Princeton Lyman, the Director of Africa Policy Studies, Council on Foreign Relation in 2005. Where such financing and investments were made, they were sponsored by private or quasi-public-private entities interested in oil and mineral trade.

Seeing this neglect and seizing the opportunity of its continuous economic growth, China continued to venture into Africa and in 2006 provided more than \$8 billion in loans to Sub Saharan Africa primarily for infrastructure. Furthermore in 2007, China through its China Development Bank and the Export Import Bank pledged to provide up to \$20 billion for trade and infrastructure in soft loans over the next few years and created the China – Africa Development Fund. In fact China pledged to double its assistance to Africa by 2009. In order to do so, it promised an array of new loans, development projects, debt cancellation, etc. As a highlight of the Beijing summit the leaders of China and Africa pledged to establish a strategic partnership featuring "political equality and mutual trust, economic win-win co-operation and cultural exchanges", all of which will entail closer cooperation.

As the Chinese have opened their markets and are increasingly venturing into Africa, competition is keen on the economic scramble for Africa. While there is growing competition between China and the west, there is also such competition between Chinese companies as the struggle to establish themselves and out compete one another continues. When this is done well, it will be beneficial to Africa.

Currently, the benefit to Africa is obvious and the prospects for further improvement are bright. For instance, export to Africa from China increased 43% to \$26.7 billion, while imports increased by 37% to \$28.8 billion by the end of 2006. In recent decades however, Africa's share in world manufacturing of value-added products has shrunk to a mere 0.75% and the share of its exports in world trade has dwindled to 2.5%, in sharp contrast to the continent's 13% share of the worlds population. Similarly, the continents share of global aggregate FDI inward flows is just 2.5%, indicating a rough correlation between performance on inward FDI and export flows. However, there is still considerable scope for further growth in all the dimensions of bilateral, multilateral, and private trade and capital flow between Asia and Africa.

As an indicator of economic potential, African economies are gradually providing complimentary sources of funding for governments and private sector to help promote prosperity and competitiveness and overall development. Indeed, African markets have been remarkably strong performers in recent years, driven by improved regulatory regimes, structural reforms, privatization, export growth, etc. (Siddiqi, 2007). In addition to providing a vibrant market, opportunities for investment are increasing. Further attractive investment environments put in place by many governments include creating a

more liberal regulatory regime, incentive structures and increased bilateral investment treaties.

### **Extension of China's strategy**

Post-colonial Africa is often seen as burdened by civil wars, epidemics, and venal regimes that aggravate endemic poverty, a perception that led to a post-Cold War Afro-pessimism or even Afrophobia and to Africa's downgrading as a concern for developed world policy-makers and investors. On the other hand, China celebrates Africa and sees opportunities for partnership and growth.

According to numerous scholars, leaders of the People's Republic of China would never term Africa a "hopeless continent." They (officially at least) celebrate Africa's culture and achievements, while these are implicitly denigrated in the West, where all that is celebrated about Africa are leaders who hearken to western advice (King, 2006). The extent to which China embraces Africa was shown to the whole world at the FOCAC meeting in November 2006.

The images visible in Beijing at that time were that of Africa being celebrated. What was exposed in Beijing was the culture, colour, diversity, resilience of people and the potential of the continent indicating that the continent will prevail. Furthermore, trade characteristics in terms of energy, dynamism and opportunity for businesses were similarly highlighted. On the contrary, where Africa is discussed in the west as has been seen in most summits, by both governments, international development agencies, etc., it

is poverty, conflicts, wars, corruption, poor governance and hopelessness that are mostly tabled for deliberations.

In part because of China's increased presence, which began in the 1990s when China-Africa trade grew by an unprecedented 700%, Western leaders are again giving some attention to the continent. Yet, even as China's activities increasingly displace traditional British, French and US interests, many Africans still find Africa "remains all but invisible," particularly to the US. That is so even though it is the second largest continent, with the fastest-growing population; it had 900 million people in 2005 and may reach 1.3 billion by 2020, when at that time, China and Africa will each have 20% of the world's people. Given this fact and understanding the moral burden where most of the world's population are surviving at or below a generally agreed poverty level of less than one dollar a day, aid, loans, trade and investment can play a significant role when well administered. These can have positive impact on the economy by creating jobs, development of entrepreneurship and empowering the population.

Although China has increased its aid to Africa, it does so without explicit conditionalities. On the contrary, The West and its financial and development institutions have inundated Africa with Aid. Where such aid has been made available, it has mostly been tied to conditions. For instance, about 80% of US grants and contracts to developing countries must be used to buy goods and services from US firms and non governmental organizations (Sogge, 2002). About 90% of Italy's aid benefits Italian companies and experts; 60 - 65% of Canada's aid and much of that of Germany, Japan and France are all tied to purchases from those states. A United Nations study found such ties cut by up to

25 - 40% the value of aid to Africans, who are required to buy non-competitively priced imports from supplies in donor countries.

Currently, Chinese firms do secure contracts on projects in Africa financed by Chinese government soft loans. An analyst speaks of "indirect conditionality," an understanding that Chinese firms will secure a portion of work financed by loans from China. For example, the \$2 billion credit line China extended to Angola in 2004, used for railroad repair, road building, office construction, a fiber-optic network and oil exploration, was guaranteed by a contract for the sale of oil from a field that generates 10, 000 bpd, mostly to China (Africa Confidential, 2007). This deal also allows more than 2500 Chinese citizens to be employed in various capacities in projects across Angola.

In dealing with African countries, Chinese firms, however, can in any case be expected to secure many construction contracts given their ability to bid at low prices and execute contracts without delay. It is said that when the Chinese say they will execute a project, they will certainly do it! In Botswana for instance, the Chinese now win 80% of the contracts that they bid for. Their winning bids are based on low labor costs and profit margins and a quick project turn-around.

For the future projection, China will sign debt relief agreements with 33 African countries by the end of 2007 to honor the pledges made at the Beijing summit of the China - Africa Cooperation Forum, according to the Ministry of Commerce (MOFCOM) in Beijing. In addition, preferential loans worth \$3 billion will be provided in the next three years to help African countries develop infrastructure, purchase technological equipment and establish production enterprises. China has invested in over 800 aid

projects in Africa over the past 50 years, including 137 agriculture; 133 infrastructure projects etc.

### **Understanding Moral Values**

Understanding the plight of Africa as the last business frontier, there is the need to complement each other and use our resources for sustainable development in the best way possible. "In some African countries, it is possible to talk of China's behavior as a new form of colonialism." The western press and institutions with traditional linkage to Africa presents China's actions as deleterious to African interests. In many commentaries, they single out China's activities as being supportive of illiberal regimes and harmful to the environment. Furthermore, China has been accused of promoting corruption in Africa and trading in ways that damage African anti-poverty efforts.

The reality these days is that the world economy is being shaped by China. This is done in earnest by the development of new technologies, services, business and trading relations and poverty eradication strategies. China has since emerged significantly on the international trade scene and this to many people, presents a threat to the traditional western industrial dominance. It is these facts and the neglect of business and investment by traditional allies that increasingly lure China and Africa closer.

For over fifty years, China has been involved in almost all sectors covering agriculture, construction, culture, education, development, etc. with the African continent. Business and trade relationships with China have been increasingly led by friendly gestures bringing along construction of infrastructure and provision of tangible aid packages that

include projects on the African continent. Examples of such undertakings include housing estates in Angola, Stadium and sports facilities in Niger, Sierra Leone, Tanzania, etc, energy and power transmission networks in Nigeria, office buildings in Uganda, a donation of \$500,000 to NEPAD to support the training of midwives. The most prominent of these is the iconic Tanzania – Zambia Railway project (TAZARA) which stretches to almost 1860 kilometers costing about US\$600 million at that time.

These projects and ventures have been in the form of aid, loans, investment, etc. Statistics are clear on these and tangible impacts are discernible from agricultural projects in Sierra Leone, Ethiopia; infrastructure in Gabon, Liberia, Kenya, etc., to medical doctors in Tanzania, Angola to site a few examples. On the other hand, from the period of colonization till date, relationship with Africa has been that of aid, grants, debt, etc., breeding corruption and leaving a legacy of incompetency.

With the advent of the Chinese inward activities in Africa, questions are being asked as to the actual motive of this renewed surge in relationship. Is this scenario an unqualified blessing for sub-Saharan Africa? There is no doubt that a boost in the economy, increase in investment, etc. of this magnitude is positive for the continent. Africa and in particular Sub – Saharan Africa trails behind the rest of the world as we proceed on an agenda to achieve the Millennium Development Goals (MDGs) by the year 2015. However, policy responses to what is ostensibly a boon must also be tailored in a careful and comprehensive manner to facilitate sustainable development in a region that is socio-economically fragile. Already there are targets set for achieving the MDGs. This increase in relationship, trade, investment and generally partnership with China, can help sub Saharan Africa in achieving the targets set.

In analyzing and assessing the business and investment opportunities that China's presence in Africa brings along, it should be noted that although national incomes may increase, natural resources exploitation generates preciously few job opportunities for the low-skilled. In order to gain from this new surge, resource-rich Africa needs to find ways to capitalize on the windfall gains arising from resource-extraction and promote job - rich sectors.

### **Conclusion**

China is forging deep economic relationship with most of African countries with an aim to secure access to the vast natural resources. Historically already, there exist political and military ties dating back to over 50 years. To this date, China is moving ahead with strategies that appear to have worked in its favor at the expense of neglect by traditional western allies. For instance when the US evacuated its citizens at the wake of the Ethiopian war with Eritrea in the 1990s, China saw the reduced presence of the US as an opportunity. It strategically moved in with aid, grants, loans and projects. As a result, China now commands an enviable investment presence in the horn of Africa.

Increasing trade and investment from Asia and indeed China could bring benefits to both regions. As Africa and China are pursuing the path of development and the two will have over 30% of the world population, it is crucial that the two sides maintain a business and mutual understanding that can facilitate the sustainable development of their peoples. When businesses and frameworks for development are put in place, it can be followed strategically allowing both sides to effectively participate constructively in Africa's

development. The significance of China's relationship with Africa cannot be overemphasized. China has consistently maintained an average of 9% growth over the past 25 years. It has uplifted over 300 million of its people out of poverty and significantly increased incomes effectively on course to achieving MDGs 1 and 2.

Another strategy is to create a level playing field that will uplift the people of Africa and China from poverty and into effective players in the global environment. Already, there has been neglect and failure to move rapidly on economic and social policies for the African people. These are indeed important for sustained development. There has also been a weak emphasis on capacity building in both the public and private sectors. In the African context these have hampered the ability of many countries in the region to attract foreign direct investment.

As many countries see this as deterrent to trade and business investment, China see this as an opportunity. As an encouragement to further exploit these opportunities, Chinese enterprises which have found suitable projects in Africa are eligible to apply for government subsidized loans to help them execute these projects. This arrangement further warrants the development of the China - Africa trade complementary framework. The first complementary trait is on resources. The second is on manufacture. This complimentary framework works for the two sides. As Africa has abundant resources that China increasingly needs, and China has an edge on manufacturing goods that Africa requires. As an example, the model of China's economic development is relevant for policy design by African governments in many ways. China is indeed a global price setter, a huge market by its own right and a major factor in the global economy. China as the global factory and development power house can be seen as a model for emerging

African economies. With the integration of China in the world economy gaining momentum, it is ever more manifest that economy and polity in Africa be in such a way that they can tap into and utilize the experiences that China has thus far accumulated. Consequently, China's phenomenal rate of growth, its hunger for natural resources, and ever growing economic and political power ensure that China will re-shape the world economy and influence the rules of the game for now and in the not too distant future. The onus is on the decision makers in the African countries, the leaders of the private sector and development partners to establish a framework that can utilize the investment friendly contents of the bilateral and multilateral agreements that exist between China and Africa.

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