

# AFRICAN EAST-ASIAN AFFAIRS

## THE CHINA MONITOR

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by *Floor Keuleers*

Tanzania's all-weather friendship with China in the era of multipolarity and globalisation: towards a mild hedging strategy

by *Jean-Pierre Cabestan and Jean-Raphaël Chaponnière*

Chinese investment in Africa: how the New Normal can leverage Agenda 2063 for sustainable economic co-operation

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The rise of BRICS development finance institutions: A comprehensive look into the New Development Bank and the Contingency Reserve Arrangement

by *Adrino Mazenda and Ronney Ncwadi*

China's economic hard landing impact on Africa: A scenario analysis

by *Emmanuel Igbinoba and Rodney Hoab*

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## **Which lodestar to follow? South African public opinion on China and other international partners\***

by **Floor Keuleers**

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### **Abstract**

South Africa's international orientation is said to be shifting, with the post-1994 focus on democracy and human rights increasingly complemented or even replaced by pragmatic relations with fellow BRICS countries. This article asks how ordinary South Africans perceive the different international partners their country might turn to, with a specific focus on China. It analyses the 2015 wave of the Afrobarometer Survey, which uses nationally representative samples to grasp the views of citizens across the continent. The article is structured around three questions. 1) How is China's engagement with South Africa seen by South Africans? 2) How do South African evaluations of China measure up to their views of other development partners, both 'old' and 'new'? 3) And how does this compare to views in other African countries? The article also brings South Africa's internal dynamics into the equation, looking at patterns of age, race, and political affiliation.

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## Introduction

South Africa's approach to foreign policy is said to be in flux, reflecting the broader dynamics of change in Africa's international relations. On the one hand, the legacy of the Mandela years entails that the country is still strongly associated with the defence of Western-style democracy and human rights, both domestically and in international affairs (Anthony, Tembe, & Gull, 2015; Van der Westhuizen & Smith, 2015). At the same time, however, there appears to be a significant shift in South Africa's orientation towards its fellow 'emerging countries' of the global South, who embody and espouse a different approach to both development and development cooperation (Bradley, 2016; Landsberg, 2014). South Africa joined the BRIC(S) format in 2010, the same year that it established a 'comprehensive strategic partnership' with China. The country's 2011 White Paper on foreign policy singled out South-South solidarity as one of two central tenets of its international engagement, the other being Pan-Africanism (Department of International Relations and Cooperation, 2011). The ruling African National Congress (ANC) in particular has voiced strongly China-oriented positions, stating that 'China[']s economic development trajectory remains a leading example of the triumph of humanity over adversity' and that 'the exemplary role of the collective leadership of the Communist Party of China in this regard should be a guiding lodestar of our own struggle' (African National Congress, 2015). South Africa's relationship with China has not been without obstacles, with the South African leadership publicly questioning its sustainability and with domestic concerns rising over perceived neo-colonial influence (Bradley, 2016).

It is not surprising, therefore, that these shifting orientations have led to questions regarding South Africa's future positioning in international affairs as well as the development model it is to apply at home. What is striking is the relative scarcity of information on how this reorientation is seen by broader sections of South African society. How do ordinary South Africans perceive the different international partners courting their country and continent? Rather than standing at the side-line of elite-level debates, South African public opinion can be understood as one of the arenas in which a competition of models is taking place. China in particular has recognised

this, rolling out an impressive array of public diplomacy initiatives in the country over recent years (Hartig, 2014; King, 2013; Wasserman, 2015; Wu, 2012).

This article analyses the last wave of the Afrobarometer survey to answer three core questions. First, how is China's engagement with South Africa seen by South African public opinion? Second, how do South African evaluations of China measure up to their views of other development partners, both 'old' and 'new'? And finally, how does the South African perception compare to the way China is perceived in other African countries? In formulating an answer to these three questions, the article also seeks to bring South Africa's internal dynamics into the equation. Instead of regarding the country's public opinion as a monolith, it looks at both differences and convergences in opinion between various societal groups.

The article is structured as follows. The next section summarises the existing literature on South African public opinion regarding international relations and foreign policy. The second part of the article discusses the survey data that is used in the analysis, focusing particularly on the sampling procedures used by the Afrobarometer. The third section presents the findings, structured along the key comparisons outlined above. The final section concludes and discusses potential avenues for future research.

### **South African public opinion on international relations**

The literature on South African public opinion regarding foreign policy and international relations is still a very limited one. The main reason for this is that 'the assumption is still that South Africans, like most publics around the world, are ill-informed and uninterested in international issues' (Van der Westhuizen & Smith, 2015:319). At the same time, however, the argument has been made that 'public opinion' only comes into existence precisely in the process of being studied, as members of the public are explicitly invited to express their opinion (Nel, 1999). In this view, it is a very welcome development that more studies are becoming available on how South Africans regard key issues in their country's international affairs.



The first comprehensive study of South African public opinion on foreign policy issues was conducted in 1997-8 (Nel, 1999). As this study took place before China's activities in Africa increased exponentially and became a topic of major debate, China does not feature prominently in the questions that were asked. The study did, however, ask respondents about two well-known cases of foreign policy at the time, one of which was the 1996 decision by Nelson Mandela to end ties with the Republic of China (ROC) and commence a diplomatic relationship with the People's Republic of China (PRC) instead. The study found that 43 per cent of respondents found this to be the right decision; 33 per cent rejected it; 22 per cent could not make up their minds; and 0.7 per cent indicated they had not heard of the ROC-PRC issue. Opinions varied strongly over different groups, with race and political affiliation emerging as key structuring variables (Nel, 1999: 141-142).

A follow-up study was undertaken some 15 years later, in the autumn of 2012 (Van der Westhuizen & Smith, 2015). This survey focused on public attitudes regarding three core questions: what should be the goals of South African foreign policy, what should South Africa's international role look like, and who should be the key allies and role models of the country. It is especially in the latter part that attitudes on China came to the fore. It was found that a majority of South Africans (56 per cent) view China as a more important trading partner than the United States of America (USA) or Europe, with few differences between demographic groups. China also emerged on top when respondents were asked 'With which country or group of countries in the list should South Africa be seen to be an ally or close friend?'. China was chosen by 26 per cent of respondents, scoring better than the USA (19 per cent) and Europe (15 per cent). China was also selected most often by respondents (26 per cent) as the country that South Africa can learn from most about reducing poverty and unemployment. It did not score well, however, when respondents were asked in which country or region other than South Africa they would prefer to live, coming in behind Southern Africa, the USA, and Europe.

The last representative study was conducted in 2013 by the Human Sciences Research Council, which surveyed 2,739 South Africans to gauge their interest in foreign affairs, knowledge of world events, and foreign policy preferences (Roberts,

Struwig, Gordon, & Bohler-Muller, 2015). This specific study did not include questions on China.

Finally, a number of studies are available that focus specifically on (South) African views of China, but most of these were not based on a representative sample. Sautman and Hairong published a study in 2009 with data collected from students and university faculty in nine African countries, including South Africa (Sautman & Yan, 2009). Yoon Jung Park published a study on perceptions of the Chinese in South Africa and Lesotho, based on ethnographic interviews between 2008-2010 and surveys with a non-random targeted sample (Park, 2013). Hanusch and Keuleers have used Round 4 Afrobarometer data to make a cross-country analysis of African perceptions of China's help to African countries, including South Africa (Hanusch, 2012; Keuleers, 2015). Lastly, the Ethics Institute of South Africa conducted an online survey in 2014, including South Africa and 14 other countries, with the aim of grasping how Africans perceive Chinese business in Africa. However, the online questionnaire and its diffusion resulted in a sample that was far from nationally representative (Rossouw, Geerts, & Xinwa, 2014).

This article seeks to further build upon these existing studies of public opinion regarding foreign policy, by zooming in on the specific issue of China as a new partner for the country. It presents more recent data, and brings in a comparative perspective by contrasting South African public opinion with that in other African countries. It also introduces a longitudinal dimension, to see how perceptions of the different international partners have changed over time.

### **Data sources and sampling procedures**

Unless indicated otherwise, the data presented below was taken from Round 6 of the Afrobarometer. Interviews for Round 6 took place in 2014-2015; the interviews with South African respondents were conducted between 13 August and 21 September 2015. A total of 53,932 respondents were interviewed in 36 African countries<sup>1</sup>; 2,388 respondents were interviewed in South Africa.

The Afrobarometer uses sampling procedures that are ‘designed to generate a sample that is a representative cross-section of all citizens of voting age in a given country’ (Afrobarometer Network, 2016). The sample is first stratified on the basis of the most important subnational unit in the country (for example, region or province) and by urban or rural location. A multi-stage sampling procedure is then used to select individuals, with random sampling at each stage. Sampling is based on probability proportionate to population size, to ensure that ‘every adult citizen has an equal and known chance of being selected for an interview’. The table below shows key demographic characteristics of the South African sample for Round 6 of the Afrobarometer.

**Table 1.** Characteristics of South African respondents in Afrobarometer Round 6

Gender	Age	Urban / rural	Race	Province	Language
49.9 % male	32.5 % age 18-29	66 % urban	75.4 % black	12 % EC	23.5 % Zulu
51.1 % female	45.3 % age 30-49 22.2 % age 50-...	34 % rural	11.9 % coloured	5.4 % FS	14.2 % Xhosa
			9.2 % white	24.8 % GP	13.7 % Afrikaans
			3.5 % South Asian	19.6 % KZN	11.0 % English
			0.1 % other	9.7 % LP	10.3 % N. Sotho
				7.7 % MP	9.9 % Tswana
			6.8 % NW	5.5 % S. Sotho	
			2.2 % NC	4.9 % Tsonga	
			11.9 % WC	3.0 % Swazi	
	2.3 % Venda				
	1.1 % Ndebele				

Source: Author’s own calculations based upon Afrobarometer Network (2015)

## Findings

The findings are presented in two parts. The first focuses on the comparison between public opinion in South Africa on the one hand and in the other African countries surveyed on the other. The second part then looks at differences between key groups within South Africa.

### *South Africa versus other African countries*

Before going into *how* South Africans see China and other international partners, it is useful to look at the overall importance that is accorded to China. Do South Africans think China matters to their country? The Afrobarometer results show that this is very much the case. Out of a list of international actors, four out of ten respondents in South Africa chose China as the most influential one. The United States (US), the only other actor to receive a sizable number of responses, follows far behind with 27.4 per cent. This contrasts with the average from the other countries surveyed by the Afrobarometer, where China also emerges as the most influential player but is followed much more closely by both the US and the respective former colonial power. South Africa stands out, therefore, as a country where unique importance is attached to China's influence. This could be related to South Africa's highly-publicised entry into the BRIC(S) grouping in 2010, which brought the relationship with China into the limelight.

**Table 2.** Influence of international actors

*'Which of the following do you think has the most influence on [South Africa], or haven't you heard enough to say?'*

Responses	South Africa (%)	Other countries surveyed (%)
China	40.1	24.9
United States	27.5	23.2
Former colonial power	7.2	22.8
India	3.3	2.1
None of these have much influence	2.7	1.4

International organisations	1.2	5.3
Some other country or organisation	1.0	0.5
South Africa	-	6.3
France (only asked in Cameroon)	-	1.5
The UK (only asked in Cameroon)	-	-
Missing	-	-
No answer	-	-
Don't know	17.0	12.0
(N)	(2,388)	(51,544)

Source: Author's own calculations based upon Afrobarometer Network (2015)

When asked specifically about the influence of China's *economic* activities on the economy of their country, the results from South Africa are closer to the average from the other African countries. In both cases, around two thirds of people see China as having 'some' or 'a lot' of influence, with most people giving the latter answer. Taken together, these two tables clearly indicate that China is seen as a force to reckon with by South African public opinion.

**Table 3.** China's economic influence

*'How much influence do you think China's economic activities in [South Africa] have on our economy, or haven't you heard enough to say?'*

Responses	South Africa (%)	Other countries surveyed (%)
None	3.7	4.5
A little	11.1	12.8
Some	28.4	27.6
A lot	40.6	41.2
Missing	-	0.1
Don't know	16.3	13.9
(N)	(2,388)	(50,344)

Source: Author's own calculations based upon Afrobarometer Network (2015)

This automatically leads to the next question: if China is seen as having major influence on South Africa, is that perceived positively or negatively? Table 4 shows that China's influence is seen as somewhat positive (34.1 per cent) or very positive (16.8 per cent) by over half of the respondents (making for a total of 50.9 per cent). Only 19.8 per cent of respondents expressed a very negative or somewhat negative opinion. While the overall picture is therefore quite positive, it should be noted that South Africans were more critical of China than the average for the other African countries surveyed. Across those countries, 62.5 per cent of respondents saw China's influence positively, and 15.3 per cent saw it negatively.

**Table 4.** China's influence as positive or negative

*'In general, do you think that China's economic and political influence on [South Africa] is mostly positive, or mostly negative, or haven't you heard enough to say?'*

Responses	South Africa (%)	All African countries surveyed (%)
Very negative	8.6	6.5
Somewhat negative	11.2	8.8
Neither positive nor negative	12.5	7.4
Somewhat positive	34.1	35.2
Very positive	16.8	27.3
Missing	-	0.1
Don't know	16.8	14.7
(N)	(2,388)	(50,344)

Source: Author's own calculations based upon Afrobarometer Network (2015)

What are, then, the reasons for perceiving China's influence positively or negatively? Tables 5 and 6 show that these are strongly dominated by domestic economic concerns, both in South Africa and in the other African countries surveyed. Contributing most strongly to positive images of China in South Africa are China's business

investment and the cost of Chinese products. Looking at the averages for the other countries surveyed, however, China's investment in infrastructure arises as the key factor creating a positive image. This likely reflects the more advanced economic position of South Africa, where the needs in terms of basic infrastructure support are smaller. It should also be noted that almost a fifth of South African respondents (19.1 per cent) could not indicate which factors contribute to a positive image of China. This is quite a bit more than the average for other African countries, and a similar divergence is apparent in Table 2. One potential explanation is that the Chinese presence is less immediately visible in South Africa, making it more difficult for respondents to think of concrete manifestations.

Interestingly, Chinese products (more specifically their quality) also feature in the first spot of factors contributing to *negative* images. Ranked second is the perception that China is crowding out local businesses and employment. Two other frequently discussed economic consequences of China's engagement were seen as less important by South African respondents: land grabbing and extraction of resources. The latter did, however, feature more prominently in the responses from the rest of Africa.

**Table 5.** Reasons for positive image

*'Which of the following factors contributes most to positive image of China in [South Africa], or haven't you heard enough to say?'*

Responses	South Africa (%)	Other countries surveyed (%)
China's business investment	28.0	16.4
The cost of Chinese products	20.9	22.7
China's investment in infrastructure or other development in the country	12.5	30.7
China's support for the country in international affairs	6.7	6.2
None of these	5.5	2.4
China's policy of non-interference in the internal affairs of African countries	3.6	4.4

Some other factor	2.5	0.7
An appreciation of the Chinese people, culture and language	1.1	1.8
Missing	-	-
Don't know	19.1	14.5
(N)	(2,388)	(50,344)

Source: Author's own calculations based upon Afrobarometer Network (2015)

**Table 6.** Reasons for negative image

*'Which of the following factors contributes most to negative images of China in [South Africa], or haven't you heard enough to say?'*

Responses	South Africa (%)	Other countries surveyed (%)
The quality of Chinese products	41.6	35.7
Chinese economic activities taking jobs or business from the locals	13.7	13.7
None of these	5.7	4.1
Land grabbing by Chinese individuals or businesses	4.9	7.3
China's willingness to cooperate with undemocratic rulers	4.9	3.9
The behaviour of Chinese citizens in the country	4.7	5.8
China's extraction of resources from Africa	4.2	10.9
Some other factor	1.7	1.1
Missing	-	-
Don't know	18.6	17.5
(N)	(2,388)	(50,344)

Source: Author's own calculation based upon Afrobarometer Network (2015)

Political factors prove to be far less important in determining images of China, both in South Africa and in the other countries surveyed. Among the factors contributing



to positive images, China's support in international affairs was selected by only 6.7 per cent of South African respondents, and non-interference in internal affairs was even less frequently chosen (3.6 percent). In terms of political factors contributing to negative images, only 4.9 per cent of South African respondents chose 'China's willingness to cooperate with undemocratic rulers'. The averages for the other countries surveyed are similar. These results clearly show that public opinion in South Africa, and elsewhere in Africa, is evaluating China's image in terms of its impact on the domestic economy, rather than in terms of abstract political principles.

Building further upon the economic aspects of the relationship with China, respondents were also asked whether China's economic development assistance does a good job of meeting the country's needs. A total of 39.8 per cent of South African respondents said China does a somewhat good job (31.1 per cent) or a very good job (8.7 per cent). While this is a larger group than the people saying China does a very bad or a somewhat bad job (24.1 per cent), South Africans do appear to be more sceptical of China than respondents in other African countries. Looking at the averages for the other African countries surveyed, 54.7 opted for 'good job' versus 19.7 per cent for 'bad job'. The difference is especially striking when looking at the 'very good job' answer, which is the least popular answer in South Africa and the second most popular one in the rest of Africa.

**Table 7.** China's economic development assistance

*'In your opinion, does China's economic development assistance to [South Africa] do a good job or a bad job of meeting the country's needs, or haven't you heard enough to say?'*

Responses	South Africa (%)	Other countries surveyed (%)
Very bad job	9.8	7.6
Somewhat bad job	14.3	12.1
Neither good nor bad job	17.9	8.2

Somewhat good job	31.1	33.4
Very good job	8.7	21.3
China doesn't give development assistance to the country	2.5	1.4
Refused	0.1	0
Don't know	15.6	15.8
(N)	(2,388)	(50,344)

Source: Author's own calculations based upon Afrobarometer Network (2015)

The results in Table 7 cannot, however, tell us anything about how China scores compared to other development partners. Wave 4 of the Afrobarometer (2008) asked a similar question that allows for comparison with other international players, though it should be kept in mind that these figures date back eight years. Respondents were asked to rate how much each of a set of international actors does to help their country. They could choose from the following responses: 'do nothing, no help', 'help a little bit', 'help somewhat', and 'help a lot'. Table 8 shows which percentage of respondents chose 'helps a lot' for each of the international partners, broken down per African country that was surveyed. The numbers in brackets indicate for each African country which international actor received the highest proportion of 'helps a lot' answers, which actor the second highest proportion, etc.

**Table 8.** How much do external actors do to help

*'In your opinion, how much do each of the following do to help your country, or haven't you heard enough to say?' (% of respondents in each country that answered 'helps a lot')*

	China		US		Former colonial power		EU	
Benin	29.8	(1)	25.60	(3)	26.0	(2)	20.2	(4)
Botswana	42.2	(1)	40.30	(2)	35.4	(3)	30.6	(4)
Burkina Faso	40.1	(2)	40.80	(1)	36.8	(3)	34.6	(4)
Cape Verde	28.6	(2)	31.20	(1)	25.8	(3)	23.7	(4)
Ghana	24.1	(3)	46.30	(1)	35.8	(2)	/	/
Kenya	17.4	(4)	37.00	(1)	28.3	(2)	27.7	(3)
Lesotho	59.3	(1)	58.80	(2)	47.5	(3)	39.3	(4)
Liberia	48.8	(2)	67.00	(1)	/	/	46.5	(3)
Madagascar	11.0	(4)	16.40	(2)	17.3	(1)	15.7	(3)
Malawi	21.8	(4)	23.70	(3)	25.5	(1)	24.4	(2)
Mali	47.4	(1)	43.10	(2)	38.1	(3)	27.9	(4)
Mozambique	32.3	(1)	31.70	(2)	20.9	(4)	26.8	(3)
Namibia	24.3	(4)	34.80	(1)	27.8	(2)	26.4	(3)
Nigeria	13.3	(4)	17.90	(1)	14.1	(2)	14.0	(3)
Senegal	33.3	(1)	23.70	(3)	26.9	(2)	20.5	(4)
South Africa	8.3	(4)	9.7	(1)	8.5	(3)	9.5	(2)
Tanzania	15.6	(4)	41.50	(1)	28.5	(2)	24.0	(3)
Uganda	6.2	(4)	23.30	(1)	20.0	(2)	19.8	(3)
Zambia	34.3	(1)	33.80	(2)	23.8	(3)	22.8	(4)
Zimbabwe	21.2	(2)	31.90	(1)	18.8	(3)	15.0	(4)
Total	25.5	(2)	31.6	(1)	23.8	(3)	22.3	(4)

Source: Author's own calculations based upon Afrobarometer Network (2014)

The first finding is that more South African respondents chose ‘helps a lot’ for the US, the European Union (EU) and the former colonial power than was the case for China. The differences are very small, however, and South Africa mainly stands out as a country that is very critical of *all* outside help. The scores are generally much higher in the other countries surveyed. This is in line with the findings in Table 4 and Table 7 -where South Africans were also found to be more sceptical- and it raises the question of why this is the case. While one can speculate about the role of South Africa’s complex historical relations, its vibrant and open domestic debate, or the fact that it is not an aid-dependent country, more in-depth research is needed to confirm any of these explanations.

The position of China varies in the other African countries surveyed, from being the most appreciated (according to this specific measure at least) partner in Benin, Botswana, Lesotho, Mali, Mozambique and Zambia, to being the last ranked in Kenya, Madagascar, Malawi, Namibia, Nigeria, Tanzania and Uganda. Another observation from these figures is that the EU does not score very strongly, with not a single country surveyed ranking it first.

Returning to the 2015 wave of the Afrobarometer, it is interesting to analyse how China is evaluated as a model for development and how this compares to other potential models. While the ANC may describe China as a lodestar, it appears South African public opinion is still very much oriented towards the US as a model for development (36 per cent). China follows in second place, but with a considerably lower score (26.1 per cent). The order is the same when looking at the averages for the other African countries surveyed, but here China follows the US’ lead more closely.<sup>2</sup>

**Table 9.** Best model for future development

*‘In your opinion, which of the following countries, if any, would be the best model for the future development of our country?’*

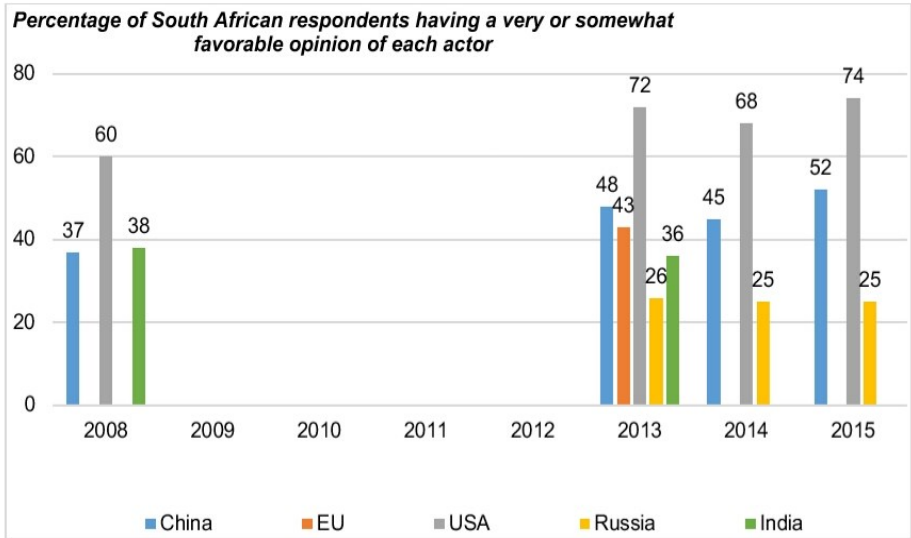
Responses	South Africa (%)	Other countries surveyed (%)
United States	36.0	30.8
China	26.1	24.2

Former colonial power	11.7	12.6
We should follow our own country's model	8.3	5.0
None of these	2.4	1.8
India	2.0	2.3
Other	0.6	1.4
South Africa	-	11.7
Don't know	12.9	9.2
(N)	(2,388)	(51,544)

Source: Author's own calculation based upon Afrobarometer Network (2015)

The figures presented so far only give snapshots of a particular point in time. This raises the question of how China's image has evolved over recent years. Is (presumably) increasing familiarity with China's presence making China more popular in South Africa, or less? And how are other international actors faring? Unfortunately, no longitudinal data is available for the above questions from the Afrobarometer, as different questions tend to be asked in each round. We briefly turn, therefore, to data from the Global Attitudes & Trends Surveys of the Pew Research Center. While its recurring questions are more general in nature, they do allow for comparison over time. The figure below is based upon the question 'Please tell me if you have a very favorable, somewhat favorable, somewhat unfavorable, or very unfavorable opinion of [China]'. It should be kept in mind that given its general wording, responses to this question can be driven by a variety of considerations, including the actor's relationship with South Africa (as in Table 8), but also the actor's domestic system or its policies towards other parts of the world.

**Figure 1.** Favourable opinions of international actors



Source: Author's own calculations based upon Pew Research Center (2008, 2013, 2014, 2015)

Figure 1 shows that while there are some fluctuations in the scores, the ranking of the different international actors appears to be quite stable over time. The US consistently scores best, with China usually ranking second. There does not appear to be support for the claim that China's image has deteriorated over time as the (negative) impacts of its engagement became clearer.

### ***Differences within South Africa***

Lastly, we ask how views differ between different groups *within* South Africa. For this purpose, we take another look at two of the questions discussed above: one China-focused question (is China's influence positive or negative) and one question that allows for comparison with other international partners (which country is the best model). We also include a third question, which was not yet discussed since it was

only asked in South Africa. This question is specifically focused on foreign policy, asking respondents which countries South Africa should prioritise in her international relationships.

We zoom in on three key demographic variables.<sup>3</sup> The first one is age. The reason why age might be interesting is that South Africa's relationship with China (at least in its current form) is a relatively recent one, compared to the more longstanding ties with Europe and the US. Do young South Africans, who have grown up in this new context, regard China differently than older sections of South African public opinion? The second variable is race. We follow the stance taken by Van der Westhuizen and Smith, who have argued that while racial categories as employed in surveys are inadequate to capture a much more complex social reality, race is still a very pervasive feature of South African society (Van der Westhuizen & Smith, 2015). It is interesting to see, therefore, to what extent appraisals of China and of other international partners are shared by different groups in society. The last variable is respondents' party preference, as expressed by their answer to the question 'If presidential elections were held tomorrow, which party's candidate would you vote for?'. Does party preference correspond with a different perception of China and other international partners? Table 10 presents the results.

The first observation is that age does appear to play a role. The proportion of respondents evaluating China's influence as somewhat positively or very positively declines with age. Respondent over fifty are most likely to evaluate China's influence negatively (20.9 per cent), although the difference with those aged between 30 and 49 is very small (20.5 per cent). When asked which country would be the best model for the future development of South Africa, all age categories agree that the US is the preferred model and that China is the second-best option. In addition, respondents over fifty seem more hesitant about the idea of another country figuring as a model for South Africa; they are more likely to say 'we should follow our own country's model', 'I don't know', or 'none of these'. When asked which countries South Africa should prioritise in her international relationships, respondents from all age groups are most likely to say 'developed countries', followed by 'BRIC coun-

tries'. Older respondents, however, are somewhat more likely than younger ones to opt for 'neighbouring countries' or 'all African countries'.

When the figures are broken down according to race, it is clear that across groups, the answer that 'China's influence is somewhat positive' is the most popular one. Coloured and South Asian respondents have the largest positive perception of China's influence (both 55.4 per cent positive), while white South Africans have the smallest proportion with a positive perception (44.8 per cent positive). Interestingly, South Asian respondents also have the largest proportion with a *negative* perception of China's influence (28.9 per cent). This reflects the fact that no South Asian respondents answered 'I don't know', making them a very outspoken group. White South Africans have the second largest proportion of negative perceptions of China, standing at 26.5 per cent. When asked which country is the best model, there is again agreement on the US as the number one choice. While China is the second-most popular choice among black and coloured respondents, the United Kingdom (UK) occupies this spot among white and South Asian respondents. When asked who South Africa should prioritise in its international relations, the differences between groups are quite outspoken. Among black respondents, identical proportions chose 'developed countries' and 'BRIC countries'. Coloured, South Asian and especially white South Africans, in contrast, are much more likely to say 'developed countries'. White respondents are also less likely to say 'our neighbours' or 'all African countries'.

Lastly, turning to the party preferences<sup>4</sup> of respondents, there are again some similarities as well as differences between the various groups. Respondents from all three parties are most likely to say that China's influence is 'somewhat positive'. ANC and Economic Freedom Fighters (EFF) voters are relatively more likely to see its influence as very positive, and Democratic Alliance (DA) voters are most likely to see its influence as very negative (11.1 per cent) or somewhat negative (16 per cent). When asked which country is the best model for the future development of South Africa, only EFF voters are most likely to choose China (34.5 per cent). The difference in proportion with EFF voters who prefer the US is, however, very small (33.2 per cent). ANC and DA voters are both most likely to choose the US as the best



model and China as the second-best, but China follows much more closely in the case of ANC voters than in the case of DA voters. DA voters are also much more likely than other voters to choose the UK as the best model. A very similar pattern emerges for the last question. EFF voters are again the only ones who are more likely to choose the BRIC countries over developed countries. Among ANC voters, 25.7 per cent choose developed countries and 25.5 per cent choose the BRIC countries. DA voters have the most outspoken preference, with 44.4 per cent wanting South Africa to focus on developed countries in its international relations, versus 17.1 per cent for the BRIC countries.

**Table 10.** Differences in views on the basis of age, race, and party preference

	"In general, do you think that China's economic and political influence on [South Africa] is mostly positive, or mostly negative, or haven't you heard enough to say?"									
	18-29	30-49	50-...	Black	Coloured	White	South-Asian	ANC	DA	EFF
Very negative	7.2	10.1	7.8	8.3	3.9	12.8	21.7	7.4	11.1	8.1
Somewhat negative	11.2	10.4	13.1	10.4	15.5	13.7	7.2	9.9	16.0	13.5
Neither positive nor negative	12.3	12.8	11.9	11.9	11.3	17.4	15.7	12.2	11.3	11.7
Somewhat positive	35.7	34.0	31.8	32.9	39.9	35.2	36.1	34.1	36.4	30.6
Very positive	19.3	16.5	13.8	17.8	15.5	9.6	19.3	18.2	13.0	19.8
Don't know	14.3	16.2	21.6	18.7	13.8	11.4	0.0	18.2	12.3	16.2
(N)	(778)	(1082)	(528)	(1799)	(283)	(219)	(83)	(1153)	(408)	(223)

	"In your opinion, which of the following countries, if any, would be the best model for the future development of our country?"									
	18-29	30-49	50-...	Black	Coloured	White	South-Asian	ANC	DA	EFF
None of these	1.4	2.5	3.8	2.8	0.4	2.7	0.0	3.0	0.7	1.8
United States	40.2	35.9	29.9	33.9	39.6	41.6	53.6	34.7	42.4	33.2
China	25.6	27.8	23.3	27.7	25.8	16.7	14.3	28.0	20.8	34.5
United Kingdom	12.9	11.3	11.0	9.3	14.1	25.8	17.9	9.0	18.6	6.3
India	1.5	2.6	1.3	2.0	1.4	0.0	9.5	1.8	2.2	1.8
Follow own country's model	6.8	7.8	11.6	8.6	9.9	6.3	2.4	8.5	6.6	10.3
Other	0.6	0.4	1.1	0.6	0.0	1.8	1.2	0.9	1.0	0.0
Don't know	10.9	11.8	18.0	15.1	8.8	5.0	1.2	14.1	7.6	12.1
(N)	(778)	(1081)	(528)	(1799)	(283)	(221)	(84)	(1153)	(408)	(223)

	1 In your opinion, which of the following groups of countries should South Africa prioritise in her international relationships?									
	18-29	30-49	50+...	Black	Coloured	White	South-Asian	ANC	DA	EFF
Developed countries like the United States, the United Kingdom and the European Union	34.6	28.4	26.8	25.5	33.8	55.8	48.9	25.7	44.4	25.4
BRIC countries, you know, Brazil, Russia, India and China	25.0	24.5	20.8	25.5	18.0	19.3	20.0	25.5	17.1	31.5
Our neighbours, like Botswana, Lesotho, Namibia and Swaziland	6.2	6.5	8.6	7.1	10.4	1.9	4.4	6.7	5.9	6.8
All countries in the SADC region, like Zimbabwe, Malawi, Angola and Mozambique	5.5	5.9	4.5	5.5	5.2	6.8	3.4	5.9	6.5	5.6
All African countries	14.6	16.9	18.7	17.7	15.4	6.8	20.6	17.6	13.1	17.0
None of the above	1.5	3.1	2.3	2.4	1.6	3.6	1.2	2.2	2.2	3.3
Don't know	12.5	14.7	18.3	16.3	15.5	5.9	1.6	16.4	10.8	10.5
(N)	(777)	(1082)	(521)	(1799)	(283)	(219)	(83)	(1154)	(408)	(223)

Source: Author's own calculations on the basis of Afrobarometer Network (2015)

## Conclusion

South Africa's international orientation is said to be shifting, with the post-1994 focus on democracy and human rights increasingly complemented or even replaced by pragmatic relations with fellow BRICS countries. This article asked how ordinary South Africans perceive the different international partners their country might turn to, with a specific focus on evaluations of China. It did so by analysing the 2015 wave of the Afrobarometer Survey, which uses nationally representative samples to grasp the views of citizens across the continent. Two types of comparison were central: between South Africa and other African countries on the one hand, and between different groups within South Africa on the other.

When South Africans were asked which international actor has the most influence on their country, China emerges as the top pick, indicating the perceived importance of the relationship. Positive assessments of China's influence are more prevalent than negative ones, and there is no indication of assessments becoming more negative over time. Economic considerations are very dominant in shaping both positive and negative images of China, with political factors playing a marginal role. Compared to the rest of Africa, South African public opinion stands out as very critical, not only of China but of international partners in general. Infrastructure support and extraction of resources play a more important role in shaping China's image in other African countries than they do in South Africa, which likely reflects differences in economic position and structure. The South African results and the averages for the other African countries both indicate that the US remains very dominant as a model for development, with China coming in second. Looking at differences in views within South Africa, age, race and party preference emerged as key structuring variables. China is seen most positively by young South Africans, coloured and South Asian respondents, and ANC and EFF voters. It should be stressed, however, that South Africans across these lines agree that China's influence is 'somewhat positive' and that the US remains the best model for the future development of their country.

To conclude, it should be reiterated that South African public opinion on foreign policy is only starting to be uncovered. On the one hand, there is a need for more survey data, particularly of the kind that makes longitudinal analyses possible. On the other hand, alternative methodologies can be useful to study public opinion in a more flexible way. As Roselle, O'Loughlin, and Miskimmon (2015) have noted: 'here is a recurrent asymmetry in current research: scholars analyse policymakers' narratives and public attitudes. They do not analyse public narratives'. While it is commonly accepted that elites and policymakers make sense of the world through complex stories, public opinion tends to be measured through lists of predetermined questions and highly limited answering options. This leaves little room for respondents to express the motivations behind their responses, whether the questions and statements speak to their own experience, and how their fragmented answers combine into a more holistic outlook on the world. It would therefore be an interesting and complementary approach to also draw on qualitative and more in-depth techniques, in order to study how South Africans form their own narratives about the international relations of their country, as it navigates the geopolitical shifts of the 21<sup>st</sup> century.

### Endnotes

1. Algeria, Botswana, Burundi, Cameroon, Cape Verde, Benin, Gabon, Ghana, Guinea, Côte d'Ivoire, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Sao Tome and Principe, Senegal, Sierra Leone, South Africa, Zimbabwe, Sudan, Swaziland, Togo, Tunisia, Uganda, Egypt, Tanzania, Burkina Faso, Zambia.
2. It should be noted that the Afrobarometer presented respondents with a limited list of countries to choose from. The results may have been different if alternative models had been included, for instance the Asian Tigers or European countries other than the former colonial power.
3. During the analysis, it was also checked whether any clear patterns on the basis of gender, employment status, education, and urban/rural location could be observed. This was found not to be the case. The main differences between

groups here tended to be the proportion of respondents answering ‘don’t know’, which was higher among women, those without employment and who were not looking, those with no formal schooling or some primary schooling, and those in rural locations.

4. Due to space limitations, only the results for the three largest parties are presented here. Together these account for 1,785 respondents out of the total of 2,388 (or 74.75 per cent). From the remaining respondents, 133 indicated they would not vote, 260 refused to answer, 67 said ‘don’t know’, and 136 were spread over a large number of smaller parties.

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**Tanzania's all-weather friendship with China in the era of multipolarity and globalisation: towards a mild hedging strategy\***

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**Abstract**

How close is the Tanzanian-Chinese partnership today? Bi-lateral trade and Chinese economic presence in Tanzania are much bigger than in the 1970s; China's "no strings attached" policy is still attractive; political solidarities and military co-operation have remained quite strong. However, this bi-lateral relationship does not have the importance, nor the exclusiveness it enjoyed in the heydays of socialism. Today, China must compete economically, politically and culturally, with the activism and soft power of a larger group of countries, particularly the United States. Although both in Dar es Salaam and in Beijing this relationship has remained presented as "special", it has lost the structural role that it had until the late 1970s in shaping Sino-African relations. Instead, particularly since the mid-2000s, it is rather the growing Sino-American and Sino-Western competition in Africa that has structured Tanzania's foreign policy, convincing Tanzania to adopt what we would call a "mild hedging strategy" towards China and helping it, at least to some extent, to better defend its own interests.

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## Introduction

There are two clearly distinct eras in the Tanzania-China close partnership: the socialist period, from 1964 to 1989 illustrated by well-known large scale symbolic Beijing-realised projects as the Urafiki Friendship Textile Mills in the 1960s or the Tanzania-Zambia railways (TAZARA) built in the 1970s; and the last 27 years, dominated in both countries by economic reforms, political changes and globalisation. The transition from one development model to another was a lengthy one,<sup>1</sup> weakening the partnership until 2005 when it was revived by both sides in a very different ideological and geo-strategic environment (Wang, 2010; Walt, 2012).

What makes the Tanzania-China relationship different from other Sino-African bilateral partnerships are, in our view, both its initial closeness as well as the parallel, quasi-simultaneous and deep transformations of both countries after the end of the Cold War and the collapse of the Soviet Union. These transformations are far from having been identical: Tanzania gradually moved in the 1990s from a one-party system to a multi-party democracy while China has remained dominated by the Communist Party and authoritarianism. Nevertheless, in the 1980s structural economic reforms and liberalisation were introduced around the same time, allowing both countries to quietly move away from socialism. As will be observed, the result is that Tanzania has developed relations with a wider array of countries, including the most prominent Western powers, such as the United States (US) and the European Union (EU), as well as other emerging economies like India. Yet Tanzanian leaders continue to regard China as a close partner.

This paper’s objective is to assess the current state of Tanzanian-Chinese relations in analysing the major features of this relationship with the help of the concept of hedging, particularly as Cheng-Chwee Kuik defines it (Kuik, 2008 & 2016). The paradox and questions that we wish to address are the following: While economic interactions between Tanzania and China are today much denser than in the 1960s and the 1970s, why is their bi-lateral political and strategic partnership today weaker than in the past decades? What are the major international and domestic forces explaining this evolution? To what extent has Tanzania moved from a foreign policy bandwagoning China to what we would qualify as a “mild hedging strategy”?

The “all-weather friendship” dynamic appears to remain the most common characterisation on both sides, however, this bi-lateral relationship does not have the importance, nor exclusiveness it enjoyed in the heydays of socialism when Julius Nyerere and Mao Zedong presided upon the destiny of their respective country. There is some irony here because, as will be observed, bi-lateral trade and Chinese economic presence in Tanzania are much bigger than in the 1970s, a consequence of China becoming the world largest exporter; moreover, political solidarities and military cooperation have remained quite strong. However, today China’s diplomatic and economic influence on Tanzania is far from being overwhelming. In other words, as elsewhere in Africa and in the world, Tanzania’s relations with China has been affected first by the end of the Cold War and since the mid-2000s by the growing Sino-American and Sino-Western geo-strategic, economic and ideological competition. As a result, although both in Dar es Salaam and Beijing this relationship has remained presented as “special”, it has lost the structural role it had until the late 1970s in shaping Sino-African relations.

In other words, deep changes both in Tanzania’s domestic economic and political environment and in the world order contribute to explaining the relative decline of the Sino-Tanzanian partnership. However, more importantly, has been the Tanzanian decision to embark into a new foreign policy that has been aimed at rebalancing its external relations and moving away from a bandwagoning policy towards China.

Tanzania is not the only African state to have become more active internationally and to enjoy in its negotiations with emerging powers a position that is stronger than many think (Vickers, 2013). It is true that Sino-Western relations in Africa, and especially in Tanzania, cannot only be looked at through the prism of competition: although all companies compete for market shares, whatever their nationality is, there is as much space for complementarity as for competition in Africa: moreover, Tanzania, as many African countries, do not want and do not have reasons to choose (Dollar, 2016: 97-98, Shinn, 2016).

However, perceptions matter and governments tend to see their action through the prism of competition (Hermann, 2013, Interviews 4, 5 and 6), particularly as the

world is moving from a unipolar towards a multipolar structure or even a kind of new and rather asymmetrical bipolarity (Tunsjø, 2011) between the US and China – one superpower, one “emerging potential superpower” and a few great powers (Brooks and Wohlforth, 2016). In this new international environment, in order to better protect their interest, smaller countries need even more than the big ones to hedge against risks (Tessman, 2012: 205). That is precisely what Tanzania has been doing since the early 2000s in order to reduce the systemic asymmetry of its relationship with China. While in this respect Tanzania’s situation is not totally dissimilar from China’s neighbours as Vietnam or Malaysia (Womack, 2010), it is far from having adopted what some international relations theorists such as Kuik would call a “balancing strategy” or even an “indirect balancing strategy”: Tanzania is not trying nor able to contain China’s influence or adopt full-fledge “risk-contingency options” and a “hedging strategy” (Kuik, 2008: 166, 171; Kuik, 2016: 502-506). However, if we keep using Kuik’s terminology, our hypothesis is that the Tanzania government has moved from a “bandwagoning strategy” to an “insurance policy” that has kept elements of “binding engagement” with China but looks more and more as promoting “economic pragmatism”. In other words, it has adopted what Kuik calls “returns-maximising options” (Kuik, 2008: 502, Kuik, 2016: 502). Tanzania still accepts China’s power but it also accepts and tend to welcome to a larger extent US and other Western countries’ co-operation and influence. It has taken advantage of the growing China-Western strategic and economic competition to improve its bargaining power with both and reduce the undesired effects of a close but also asymmetrical relationship with China.

This article is based both on fieldwork conducted in 2012 in Tanzania and updated Tanzanian, Chinese and Western primary as well as secondary sources. Our method and approach have been to look at the Tanzanian-Chinese relationship from Tanzania’s viewpoint and to reflect on this country’s changing perceptions of China as well as of other partners. In this aim, we have chosen to interview a rather small but diverse and well-informed (around thirty) sample of Tanzanians as well as Chinese and Westerners living in Tanzania, including government officials, business people, diplomats and journalists, out of which one third has been quoted in this paper (see

bibliography).

In order to better comprehend the scope and the limits of today's Tanzania-China partnership, we will first analyse the key facets of these two countries' political relations since 2005: the Chama Cha Mapinduzi (CCM)-Chinese Communist Party (CCP) party-to-party relations, the foreign policy convergences between both countries and their limits, and their strong military co-operation since its revival since 2005. Then, we will briefly present Tanzania-China economic relations, not only their bi-lateral trade but also Chinese investments in Tanzania before looking at the financial dimension of this partnership.

### **Today's Tanzania-China political and security partnership and its limits**

Tanzania's political democratisation and the opening of its economy in the early 1990s contributed to strengthening its relations with the West, particularly the US, the United Kingdom (UK) and the European Union (EU) and loosening its traditional links with the former Soviet Union and China. The rise of new security threats such as Islamic terrorism in the late 1990s have directly contributed to intensifying this rapprochement.

It was in this context that both Tanzania and China decided in 2005 to re-dynamise their relationship. Owing to both countries dramatic domestic changes and China's unprecedented need for African resources, this relationship had to be based on new foundations. Jakaya Kikwete's election as Tanzania's president in 2005 and Prime Minister Wen Jiabao's visit the following year signalled this new departure in the relationship. Since then both governments have continued to claim their adherence and pay lip service to "socialism" and to praise their "all-weather friendship" (*quantianhou youyi*). However, it was clear that the Tanzania-China relationship was becoming much more pragmatic and business-oriented. Moving away from keeping afloat the older projects launched in the 1960s and 1970s, as the famous TAZARA, Beijing decided to rapidly increase and diversify its economic presence in this country, in an attempt to catch up with Tanzania's other (and new) partners.

Since 2005, high level visits have intensified. President Kikwete travelled to China

three times: in 2006, on the occasion of the third Forum on China-Africa Cooperation (FOCAC), in 2008 and in October 2014 to celebrate the 50<sup>th</sup> anniversary of the establishment of diplomatic relations between the two countries. Chinese President Hu Jintao and his successor Xi Jinping made important visits to Tanzania, in 2009 and 2013 respectively.

The forms of China’s co-operation with Tanzania have remained partly identical: when in Dar es Salaam, Hu inaugurated a US\$ 56 million sports complex largely funded by China. He also launched new initiatives like signing a US\$ 17.5 million agreement to finance investments in agriculture and another to send Chinese volunteers to Tanzania, a project that can be compared to the US Peace Corps (Shinn and Eisenman, 2012: 263). While since the 2006 FOCAC meeting China’s co-operation with Tanzania has largely focused on agriculture, Beijing has further encouraged its entrepreneurs to trade with or invest in Tanzania: for example, in 2008 an unprecedented China-Africa business forum comprising 300 delegates was held in Dar es Salaam.

Chinese Minister of Commerce Chen Deming’s visit to Tanzania in 2010 also confirmed China’s intention to deepen its co-operation with the country. Chen signed four agreements, including a US\$ 180 million optic fibre deal and another one related to the construction of Zanzibar airport’s second terminal worth US\$ 70 million. Similarly, in March 2013, Xi Jinping’s visit signalled the go-ahead for the Chinese financing of a US\$ 10 billion port construction in Bagamoyo, due for completion in 2017 (the whole project will not be completed before 2025 for domestic political and financial reasons) (Reuters, 16 October 2015).<sup>2</sup> On a visit to China in October 2014, Kikwete signed nine agreements related in particular to agriculture, the creation of industrial parks and finance. Moreover, in February 2014, both countries signed a bilateral Air Service agreement aimed at establishing direct flights between them and their airline companies and setting up a joint venture to strengthen regional aviation co-operation.<sup>3</sup>

It is fair to say that Kikwete has been satisfied with Tanzania’s co-operation with China. In 2007, he went as far as to declare, in a clear reference to this country’s “no

strings attached policy”, that it was easier to do business with China than the West because, “China does not ask many questions like the West do” (Financial Times 2007, quoted by Kamata, 2014: 94).<sup>4</sup> While this feeling may be shared by a number of African leaders, does this remark genuinely encapsulate the nature of Tanzania-China relations? As shown below, it does not.

This partnership has remained very close and specific at a number of levels: party-to-party relations, foreign policy, defence co-operation and to some extent business. After his election in October 2015, the newly elected Tanzanian President, John Magufuli, declared to Zhang Ping, Vice-Chairman of China’s National People’s Congress, who represented Xi Jinping at his inauguration: “we should strengthen our bi-lateral relation with a view to helping Tanzania to achieve its development goal and enable me to fulfil my promise of improving the life standards of Tanzanians”.<sup>5</sup> But a month later, Magufuli decided not to participate in the FOCAC in Johannesburg but to send his deputy, Vice-President Samia Suluhu Hassan, and a much smaller delegation (six members) than usual.<sup>6</sup> He preferred to take part in the Commonwealth summit held in Malta a week earlier and the Paris COP21 Conference on Climate. This symbolic choice tends to signal that in spite of the revival of Sino-Tanzanian relations since 2005, Tanzania’s economic and political reforms have moved closer to countries that see China as a trade competitor, if not always a strategic rival (Minde, 2016).

### ***Contested Party to Party Relations***

Today, the CCM, the Revolutionary Party and ruling party of Tanzania, has kept strong ties with the CCP. And on the domestic stage, it has maintained to some extent the influence and modus operandi that stemmed from its previous status.

Both parties regularly exchange high level visits and experiences, China’s “success story” remains, at least on paper, a major source of inspiration for the CCM and Tanzanian reforms. Here it should be noted that China has not tried to set up formal relations with Tanzania’s other political groupings, not even the ones represented in the *Bunge* (National Assembly) such as the CHAMEDA (Party for Democracy and Progress) or the Civil United Front (Interview 6). The CCP may for example feel un-



comfortable with the CHAMEDA, a party of centre-right (and anti-corruption) orientation that has also kept close relations with the US (its representative took part in the US Democrats’ Convention), the EU or India (Interview 7). However, at the same time, Tanzanian opposition parties are not all critical of China; CHAMEDA is<sup>7</sup>; most of them also support a strong, and sometimes a stronger, “more aggressive” engagement with China (Interview 7).

On the Tanzanian side, the CCM-CCP relationship has remained a useful channel to reach out to China’s top leaders and perpetuate a feeling of coziness with China’s political elite. China is also taken as an example by the CCM to legitimise the current economic reforms in the name of “socialism” and its necessary adaptation to globalisation. On the Chinese side, this party-to-party relationship is perceived as a useful tool to better penetrate and influence Tanzania’s ruling elite and export China’s development model, even if Chinese officials often argue that there is not such a model and each country should follow its own path (Hanauer & Morris, 2014: 9).<sup>8</sup>

In any case, CCM-CCP exchanges and co-operation seem to be more pro-actively promoted by China than by Tanzania, even if the CCM is far from being indifferent to its relationship with the CCP. For example, on 25 June 2014, when Chinese Vice-President Li Yuanchao met Philip Mangula, Vice-Chairman of CCM in Dar es Salaam, Li “raised a three point proposal to develop the two parties’ relations. He called on the two parties to maintain a high level of communication and deepen mutual political trust, to expand cadres exchanges and intensify communication on governance experience and to work together to hold multilateral activities to boost Chinese-African relations”.<sup>9</sup> Likewise, on 4 July 2014, both leaders met again at the University of Dar es Salaam and “discussed how socialism can survive the modern era”. Tanzanian academics taking part in this forum presented papers on the topic. Philip Mangula reiterated that Tanzania was a socialist nation drawing lessons from China, which he described as “a leading socialist country in the world.”<sup>10</sup>

These meetings and statements tend to underscore that both parties are trying to keep alive a fledgling relationship that has lost most of its substance. Besides, the CCM-CCP special relationship has been questioned, both by opposition parties and even

some members of the Tanzanian government. For example, in September 2013, the presence of the Chinese ambassador Lü Youqing at a CCM political rally chaired by secretary general Abdulrahman Kinana in Kshapu, Shinyanga region, triggered a statement from the Tanzanian Ministry of Foreign Affairs and International Cooperation arguing that the Chinese ambassador had crossed the line and breached article 41(1) of the Vienna Convention of 1961, which requires that foreign diplomats keep off the domestic affairs of their host countries, political events included. Opposition party CHADEMA threatened to write a protest letter to the Tanzanian and Chinese governments as well as the United Nations (UN) if no action was taken against the diplomat. Similar incidents involving Chinese diplomats occurred previously in 2010 and 2012.<sup>11</sup> Reported in the local press, this incident shows that, because of Tanzania's democratic environment, the CCM-CCP relationship is more contested today.

Cadres exchanges and seminars will contribute to keeping both parties interacting and China influencing Tanzania's ruling party elite. However, this relationship is more rooted in the past than in the future of the two countries' relations.

### ***Weakening Foreign Policy and Geo-Strategic Convergences***

Today, as shown below, the foreign policy and geo-strategic convergences between Tanzania and China have been weakening. While we can trace back the origins of this loosening partnership to the end of the Cold War, China's rise and its growing competition with the US, including in Africa, have persuaded Tanzanian leaders, particularly since Kikwete, to rebalance their country's foreign policy orientations in favour of the latter and diversify (Mponzi, 2014). While China has concentrated on boosting trade and economic relations, the US, particularly under Obama has relaunched its co-operation with Tanzania in putting more financial resources in the country, promoting public-private partnerships, and including Tanzania in his "Power Africa Initiative" (Hanauer & Morris, 2015: 101-102).

It is clear that China is still today one of Tanzania's key diplomatic partners. Also, China still considers Tanzania as one of its main diplomatic partners and geostrategic hubs in East Africa (Interview 3, Alden and Alves, 2008: 51). Tanzania's geo-

graphical location on the Western edge of the Indian Ocean clearly matters in Beijing’s eyes.

Nevertheless, as early as the late 1980s, Tanzania gradually moved away from its anti-Western leanings, establishing a better balance among its main partners, the US, EU, China and India. Partnerships’ diversification was already the key word. Today, some members of the Tanzania government still want to move more decisively eastward, not only towards China but also India, Japan and South Korea (Interview 3). Simultaneously, there have been repeated calls among the Tanzanian elite to cooperate more with the BRICS (Brazil, Russia, India, China and South Africa).<sup>12</sup> Nevertheless, after Kikwete’s election in 2005, Tanzania started to actively strengthen its relations with the West, and particularly the US (Interview 5). At the same time, Kikwete decided to develop military co-operation with Germany and the US, moving partly away from Tanzania’s traditional arms suppliers such as China and more importantly Russia.

Conversely, the US has also established a stronger presence in Tanzania after the bombing of its Embassy in Dar es Salaam in 1998. Kikwete was the first African leader to meet with newly-elected President Obama in Washington DC in 2009.<sup>13</sup> Obama actually pursued and consolidated a closer co-operation initiated by the Bush administration which, among other things, had set up in 2004 a large Millennium Challenge Corporation (MCC) grant, which doubled US aid but also linked it to progress in political and economic freedom, rule of law as well as governance. Since 2006, Tanzania has benefited from this grant, signing in 2008 with the MCC a six-year and US\$ 698 million “compact” aimed at modernising its transport, energy and water sectors.<sup>14</sup> Since 2014, the MCC has developed other projects related for instance to improving public power utilities.<sup>15</sup>

In the same period, China’s Africa policy has expanded and also diversified, reducing to some extent Tanzania’s privileged position. In Chinese leaders’ eyes, Kenya has emerged as a more important political and trade partner because of the weight of its economy, its higher standard of living and its regional influence (several signifi-

cant regional organisations are based in Nairobi) (Shinn and Eisenman, 2012: 266-269; Onjala, 2014). For example, it is not a coincidence that in 2006 Beijing decided to establish the African desk of its radio and television stations in Nairobi and to broadcast in English, Swahili and Chinese from there (Wasserman, 2015; Zhang *et al.*, 2016; Interview 10).

It is likely that China's proposed development of ports (as in Bagamoyo) and supporting hinterland infrastructure on the East coast of Africa serves greater geo-strategic interests within Africa and the Indian Ocean. And since late 2013, these interests have been "repackaged" by Beijing in Xi Jinping's "One Belt One Road" initiative, and particularly its "Maritime Silk Road" facet. Can we, however, consider these new ports as part of a "string of pearls" in which each pearl is a "a nexus of Chinese geopolitical influence or military presence" (Pehrson, 2006: 3)? Is the economic and political rivalry between India and China the 21<sup>st</sup> century equivalent of the "great game", whose contending sphere of influence includes the littoral states of the eastern Indian Ocean (Scott, 2008: 2)?

As Anthony indicates:

The broader market economic system in which China and Africa engage today entails that Chinese unfettered access to projects is complicated by the interests of multiple stakeholders. The Chinese presence has been exaggerated at the expense of other actors and thus, in any future conflict, it cannot be assumed that China will be able to mobilise this infrastructure in its interests. This has implications for the broader analysis of China's growing presence in the Indian Ocean (Anthony, 2013: 134).

More pragmatically and in a shorter future, Bagamoyo and other infrastructure projects built by China in Tanzania will contribute both to decongesting the existing ports in the region (particularly Mombasa and Dar es Salaam) and getting an easier access to the raw materials that Beijing wishes to import (natural gas) from and the markets it hopes to reach in Eastern Africa, particularly in the Great Lake region.

The decision announced by China in November 2015 to open a dual use logistical base operated by the People's Liberation Army (PLA) Navy in Djibouti, a much more secure and strategically better located place where France, the US and Japan already have military facilities, confirms also the overly economic and trade dimension of the Bagamoyo project.<sup>16</sup> Moreover, if in the longer run, Bagamoyo and other Tanzanian ports are used as supply or logistical bases for PLA navy ships cruising in the region, will this role be different from the ports (as Djibouti or Salalah) where the PLA ships involved in the anti-piracy operations in the Gulf of Aden make regular calls?

More generally, the Tanzania-China political and diplomatic relations lack depth and engagement. As indicated in a Tanzanian action plan in 2009, “interaction generally appears to be extremely formal” (quoted by Shinn and Eisenman, 2012: 263). China is a useful partner and alternative to Western aid and investments. As Former Tanzanian President Benjamin Mkapa declared in China in 2014:

China’s relations with the Western countries in the African market should be competitive... China should not be seen as collaborating with them [Western countries] to stifle Africa’s efforts to lift its people from poverty and disease.<sup>17</sup>

In other words, as for other African countries, it is in Tanzania’s interest that the West and China (or other emerging economies) continue to compete. Likewise, it is also in its interest to keep a diplomatic and geostrategic balance between the two groups of nations and to explore more “returns-maximising options” vis-à-vis China. As Shinn and Eisenman indicated, the Tanzanian government “understands the potential risk in a monopoly position for Chinese contractors and unfavourable deals tied to Chinese assistance” (2012: 263). However, this potential risk looks more and more remote today, even if Tanzania-China military co-operation has intensified since 2000.

### ***An enhanced military co-operation***

Rooted in the history of their bi-lateral relations, military co-operation between Tan-

zania and China has intensified in the 2000s and particularly since 2010. In the last decade, Tanzania has been China's second client in terms of arms sales to Africa (US\$ 399 million from 2000 to 2015 and 13 per cent of China's total arms sales to Africa), behind Algeria (US\$ 438 million) and Egypt (US\$ 424 million), and its first in Sub-Saharan Africa (SIPRI, 2015). Chinese arms sales to Tanzania have increased in the last few years (US\$ 352 million in 2009-2015, 17 per cent). Moreover, Beijing is involved in ambitious military infrastructure and communication projects. However, Tanzania has started looking for military co-operation with other countries, such as the US or Germany which have contributed to reducing China's influence on the Tanzania People's Defence Forces (TPDF) (Kalu and Kieh, 2014).

In 2000, PLA Navy ships started to visit Tanzania. China's participation in the anti-piracy operations in the Gulf of Aden has directly increased the frequency of these visits including the call of PLA's main Hospital ship, the Peace Ark (*Heping zhi zhou*) in Dar es Salaam in 2010. These visits have triggered some anxieties among Western nations, particularly the US that understands them as part of a Chinese willingness to establish military bases in warm sea ports (Interview 5). However, what the PLA Navy is wishing to secure in the foreseeable future are port calls, resupply and "rest and relaxation" (R&R) facilities for its personnel, services that Djibouti more than Dar es Salaam or perhaps Bagamoyo can better provide. Training has also intensified, particularly since 1997, when exchanges of military delegations started to increase again. According to Beijing, 1,000 Tanzanian military personnel receive training in China every year (Interview 6).

In the 1990s China's armament supplies to Tanzania mainly constituted of light weapons or donations. Since the early 2000s, the TPDF have started (again) to buy heavier equipment, such as transport aircrafts (two Yun-8F 200) in 2002 and Armoured Personnel Carriers in 2005. This trend has accelerated since then, including 30 tanks 59G in 2007, 14 fighter aircrafts F-7MG in 2008 and six training/combat fighters K-8 (Karakorum) in 2010 (SIPRI, 2015). Besides, in April 2015, President Kikwete commissioned two navy ships built by China's Poly Technologies; their mission is to enhance the fight against illegal fishing and piracy.<sup>19</sup>

China has also been involved in the construction of military infrastructures such as the National Defence College built by a Chinese company, financed by both governments and handed over to the TPDF in January 2011 (Kamata, 2014: 96). And in 2015, it funded two projects aimed at improving the Ngerengere Air Force base and equip it with the capacity to receive large passenger planes whenever there is an emergency at the Julius Nyerere International Airport in Dar es Salaam.<sup>19</sup>

More importantly, later in 2011, China accepted to finance with a concessional loan of US\$ 64 million from the Export-Import (Exim) Bank the establishment of an Independent Secured Mobile Network Project under the Ministry of Defence and National Service. This project aims to lower communication costs and link all defence forces with modern and secured communication network as well as allowing sharing of information.<sup>20</sup> Beijing’s direct involvement in the establishment of secured communication in the TPDF has been the cause of multiple speculations in the Western diplomatic community based in Dar es Salaam (Interviews 4 and 5). It is worth noting that the Chinese Embassy in Tanzania does not have a defence attaché: again, informed sources claim that, the PLA being directly represented by a unknown number of officers in the TPDF, there is no such need (Interviews 4, 5 and 6).

Since the early 2000s, Tanzania has tried to diversify its arms suppliers, getting weapons or military equipment from Ukraine and Western countries such as the UK, Germany, Italy (IVECO transport vehicles, helicopters), the US (patrol boats) and for light weapons, South Africa. Some of the equipment is donated. However, volumes have remained small according to UN data.<sup>21</sup> The TPDF have in addition maintained a small co-operation with Cuba and North Korea (Interview 5). The American government has also been involved in military personnel training. The US is willing to give Tanzania a role in Africom, organising joint exercises with East African countries and training Tanzanian soldiers for UN Peace-Keeping Operations or anti-piracy and anti-terrorism missions (Interview 8).

Some observers argue today that for its defence also, Tanzania has moved closer to the US than China. Nevertheless, Beijing has remained Tanzania’s top weapons suppliers—92 per cent of its imports in value between 2000 and 2015 and over 99 per

cent between 2009 and 2015 according to SIPRI (SIPRI, 2015)—and, even if one cannot fully trust SIPRI data that partly clash with UN figures, has clearly intensified its military co-operation with Dar es Salaam, creating an obvious tension with Tanzania’s foreign policy and geo-strategic priorities since the early 2000s. But China’s cheaper armament and more generous military co-operation is likely to perpetuate this mismatch in the foreseeable future.

### **Economic Relations: China as a Big Player Among Several**

As elsewhere in Africa, China has become the largest supplier of Tanzania and Tanzanian exports have recently been impacted by China’s economic slowdown. Chinese investments have increased and Chinese firms are heavily involved in the construction sector and Chinese banks are significant creditors. However, other partners continue to play an important and, arguably, increasing role in Tanzania’s external economic relations.

#### ***Bi-lateral Trade: A North-South Pattern***

China is Tanzania’s first trade partner but it is rather a supplier than a client. In 2015 Tanzania imported 34.7 per cent of its goods from China.<sup>22</sup> Since 2000, even though the bi-lateral trade has grown forty-fold,<sup>23</sup> China remains the third largest importer from Tanzania (8.1 per cent of this country’s exports) after India (21.4 per cent) and the EU (16.7 per cent).<sup>24</sup> According to Global Trade Atlas (GTA) statistics—different from Comtrade’s—China’s exports to Tanzania kept increasing rapidly in 2015 and fell by 9 per cent in 2016 (January to August), while Chinese imports from this country stagnated in 2015 and fell by 40 per cent in 2016 (January to August) as China’s growth slackened and price of commodities decreased.<sup>25</sup> Like most non-oil African countries, Tanzania runs a structural trade deficit with China (nearly US\$4 billion in 2015), which represents more than eight per cent of its gross domestic product (GDP).

While China-Tanzania trade participates to the development of South-South relations, its composition has a typical North-South pattern as China exports manufactured goods and imports natural resources (Chaponnière, 2009). According to the



United Nations Industrial Development Organisation (UNIDO), competitiveness report (2012), this bias increased in the 2000s as the share of Tanzanian manufactured exports diminished. A disaggregation of Tanzanian exports show that their primary nature increased between 2002 (average 2001-2003) and 2013 (average 2012-2014): among the 10 largest items—which account for 91 per cent of Tanzanian exports to China—the share of manufactured and processed goods decreased from 12 per cent to nil, while that of metal products increased to 50 per cent.<sup>26</sup>

The structure of Tanzanian imports from China is less concentrated than its exports to China. However, they are dominant in the Tanzanian market. A comparison of the 10 largest items shows that equipment and durable goods have gained ground at the expense of consumer goods and semi processed products. Chinese market share is over 50 per cent for several items: over two third of imported motorcycles and 80 per cent of imported pipes are Chinese.<sup>27</sup>

As elsewhere in Africa, textile firms, including China’s built and painfully restructured in the 1990s (Lee. 2009: 650-660), Friendship Textile Corp. in Urafiki, suffered from Chinese imports competition which increased four-fold to represent 45 per cent of Tanzanian textile and leather imports (Rutaiwa and Mkwawa, 2011): Chinese competition has probably contributed to the slowing down of textile production which indices fell from 271 in 2006 to 186 in 2011 (index 100 in 1985). According to the revised National accounts statistics published in November 2014, the share of manufacturing value added in GDP (seven per cent) has hardly changed since 2002.

### ***Investments: from a low to high profile***

Foreign Direct Investment (FDI) in Tanzania picked up in the 2000s and have averaged US\$ 1.8 billion per year since 2010; according to United Nations Conference on Trade and Development (UNCTAD) (2015), its stock, US\$ 17 billion in 2014—three times that of Kenya—is the largest in East Africa. Tanzanian Investment Centre (TIC) data show that South Africa, the UK and Canada account for 70 per cent of inflows. In 2013, Singapore was the largest investors as its sovereign wealth fund

(Temasek) bought a 20 per cent share (for US\$ 1.3 billion) in the Tanzanian gas fields (UNCTAD, 2014: 19).

According to TIC, China is a minor investor in Tanzania as inflows averaged US\$ 5 million per year between 2005 and 2010 and Chinese presence is made of 140 enterprises and a cumulative investment of US\$ 200 million. Exploiting a Mofcom (China's Ministry of Commerce) database, which gives only the number of projects, David Dollar (2016) found 160 Chinese projects in Tanzania: 30 in manufacturing and 110 in service and 20 in agriculture. According to the Chinese Embassy in Dar es Salaam<sup>28</sup> with investment reaching US\$ 4 billion in 2014 China could be the largest investor in this country.<sup>29</sup> An alternative source is provided by the China global tracker database<sup>30</sup> which documents Chinese equity financed projects over US\$ 100 million.

However, low productivity, high overall production costs and a lack of qualified labour force have continued to limit Chinese investments in Tanzania's manufacturing industry (Jansson, 2009; Kweka and Lu, 2013; World Bank, 2014; Wangwe *et al.*, 2014). And when Chinese enterprises invest in Tanzania, it is more for entering the local market and competing with Indian goods rather than for exporting (Interviews 1, 2 and 9).

### ***Building infrastructure***

As a result, China's main involvement in Tanzania has remained concentrated in the infrastructure sector. According to Mofcom data, the amount of international contracts won by Chinese companies in Tanzania rose from US\$ 0.3 billion in 2003 to US\$ 1.7 billion in 2013. They represent a significant percentage (12 per cent in 2013) of Tanzanian gross domestic investment. These contracts include the construction of an already mentioned US\$ 10 billion container port in Bagamoyo (2013) and a US\$ 1.7 billion satellite city to ease congestion in Dar es Salaam (2014). The announcement in June 2015 of the conclusion of a rail contract between the Tanzanian Transport Ministry and China Railway Materials (CRM) amounting US\$ 9 billion and aimed at linking Dar es Salaam to the country's western border and particularly the Kigoma Special Economic Zone (SEZ) (2,600 km), if

implemented, will probably strengthen China's position in the infrastructure sector and in this SEZ.<sup>31</sup> Among the advantages enjoyed by Chinese contractors there is their availability to offer a "package" which includes financing.

### ***Finance: China as a free rider?***

According to Tanzania Ministry of Finance bulletin, disbursement of Chinese loans increased from US\$ 299 million in 2010, to US\$ 743 million in 2012 and US\$ 1.4 billion in 2015: cumulative disbursement reached over US\$ 4 billion (2010-2015) while during the same period total disbursement by official lenders stood at US\$ 8.3 billion. In addition to China Exim Bank, Beijing's major official lender, and private lenders, China's ZTE has made a US\$ 300 million loan for financing telecom projects in Tanzania.

Outstanding Tanzanian external debt increased from US\$ 7.8 billion (2010) to US\$ 19 billion by September 2015. Thus, China's share of this increase is significant (around one third) and its share of outstanding external debt should be around 20 per cent, knowing that there are lingering doubts on Tanzania's external debt data and discrepancies between sources (Chauvin, 2012). The significant rise in debt service payments from three per cent to eight per cent of total public expenditure cannot be explained by China's "free rider attitude": Chinese loans are considered as semi-concessional by the Tanzanian Ministry of Finance as their conditions are rather favourable: Libor plus 200 bps interest rate, a five year average grace period and a maturity of 25 years.

Since the early 2000s, Tanzania's economic relations with China have expanded but its dependence upon the world's second economy has been reduced. Trade relations have increased dramatically and become more asymmetrical, elevating China in Tanzania's first trade partner, way ahead of India (15.4 per cent). However, China is not Tanzania's major export destination. Beijing is involved in a growing number of infrastructure projects but it is not yet among Tanzania's top foreign investors, even if the statistics may underestimate the amount of Chinese FDI. In addition, China is somewhat distracted in trying to keeping afloat some of the most symbolic projects launched in the socialist era, such as the TAZARA.<sup>32</sup> China did contribute to

increasing Tanzania's external debt but in less proportion than in the case for other East African countries, notably Ethiopia. Overall, China has gained influence in Tanzania through trade in goods and services (construction), and Chinese investment will probably increase. However, it is only one big player among several. And in order to "maximise its returns", Dar es Salaam is keen to diversify its external economic relations to the benefit of India, the EU or its own neighbours (Mponzi, 2014; Interview 7, 8 and 9).

### **Conclusion**

There is no doubt that the Tanzania-China partnership has remained politically strong. The frequency of visits since 2005, the special connection between the CCM and the CCP, the density of the bi-lateral military co-operation and the increase of goods and people flows between both countries illustrate the closeness and longevity of this relationship. Nevertheless, the old socialist "friendship" and solidarity between Dar es Salaam and Beijing have not really helped to adapt this partnership to the new neo-liberal international environment. In addition, China's rise has fed Tanzanian elites' growing criticism of the "one-way" nature of the China-Tanzania relationship (Biketeye, 2013) or what we would call its "structural asymmetry" and more importantly its North-South feature (Sigalla, 2014). It has also convinced Dar es Salaam to rebalance its foreign relations in favour of other partners, particularly the US and the EU but also India and to move from bandwagonging China to a more cautious, "pragmatic" and "returns-maximising" hedging policy. In that respect, in our view, the Tanzania-China relationship is not as special as both governments claim and can be compared to other changing Africa-China relations (Cabestan, 2015).

This evolution has also included a significant political and security dimension as the US and the EU have been eager, particularly since the late 1990s, to develop a stronger partnership in these areas with Tanzania. Dar es Salaam's gradual diplomatic adjustment in favour of the West, therefore, can be understood as a dependent variable of the growing Sino-US economic and geo-strategic competition in Africa.

It is clear that Tanzania will continue to cultivate China both politically and economically as well as in terms of military co-operation, welcoming its highly competitive large-scale projects and, when need be, play it against its other partners (and vice-versa). However, mildly hedging against China, Tanzania’s new foreign policy orientation has led to a relative decline of China’s political and economic influence in Tanzania and to the emergence of stronger political and security links with the West and particularly the US.

In other words, this brief analysis of Tanzania-China relations contributes to nuancing the assessments about the growing Chinese imprint in Africa (Rotberg, 2008; Taylor, 2009) as well as Beijing’s capacity to translate its growing economic and human interactions with Africa into political influence (Sun, 2014: 26-30); underscores the diversity of actors present on this continent (Li & Farah, 2013; Taylor, 2014) and, more importantly perhaps, highlights African countries more active and reactive behaviour vis-à-vis the planet’s only “emerging potential superpower” (Hanauer & Morris, 2014). However, in the asymmetrical multi-polar world in which we are today, this conclusion should not be surprising including for China which has been a strong promoter of this new world order.

## Endnotes

1. From a state-led pro rural strategy in the 1960s and 1970s to a more liberal strategy recently inspired by Malaysia and illustrated by Tanzania’s “Big Fast Results” initiative.
2. See *Reuters*, 16 October 2015, <http://af.reuters.com/article/kenyaNews/idAFL8N12G3FZ20151016>
3. See <http://www.eturbonews.com/42807/tanzania-and-china-sign-new-bi-lateral-air-services-agreement>
4. See *Financial Times*, 6 November 2007, <http://www.ft.com/cms/s/0/d8a07e28-72a3-11dc-b7ff-0000779fd2ac.html#axzz25D4cJLSi>.

5. See *The Citizen*, 7 November 2015, <http://www.thecitizen.co.tz/News/JPM-appeals-for-more-China-support/-/1840406/2946088/-/fygyat/-/index.html>
6. See *The Citizen*, 6 December 2015, <http://allafrica.com/stories/201512090299.html>
7. See “China is morally bankrupt all they need is oil and minerals”, 31 March 2013, <http://chademadiaspora.blogspot.hk/2013/03/china-is-morally-bankruptall-they-need.html>
8. See *Xinhua*, 21 June 2012, <http://english.sina.com/china/2012/0619/478579.html>
9. See *Xinhua*, 24 June 2014, <http://za.china-embassy.org/eng/znj/t1168704.htm>
10. See *The Citizen*, 25 June 2014, <http://tz.china-embassy.org/eng/ddbd/t1171663.htm>
11. See *The Citizen*, 17 September 2013, <http://www.thecitizen.co.tz/News/China-envoy-at-CCM-rally-irks-Chadema/-/1840392/1995274/-/item/0/-/ans27bz/-/index.html>, and *The Citizen*, 18 September 2013, <http://www.thecitizen.co.tz/News/China-envoy-at-CCM-rally-irks-Chadema/-/1840392/1995274/-/item/0/-/ans27bz/-/index.html>
12. See Benjamin Mkapa’s speech, “Unscrambling Africa in the New Millennium”, given at Zhejiang Normal University on 23 September 2014, <http://bridgingthegreatwall.wordpress.com/2014/09/23/ask-not-what-the-foreign-nations-are-doing-for-africa/>
13. See *AllAfrica*, 22 May 2009, <http://allafrica.com/stories/200905220750.html>
14. See <https://www.mcc.gov/where-we-work/program/tanzania-compact>
15. See <https://www.mcc.gov/where-we-work/country/tanzania>
16. See *The New York Times*, 27 November 2015.

17. See Benjamin Mkapa's speech given at Zhejiang Normal University on 23 September 2014, <http://bridgingthegreatwall.wordpress.com/2014/09/23/ask-not-what-the-foreign-nations-are-doing-for-africa/>
18. See *News Ghana*, 29 April 2015, <http://www.spyghana.com/tanzanian-president-commissions-2-new-navy-ships/>
19. See *Tanzania Daily News*, 22 October 2015, <http://allafrica.com/stories/201510220376.html>
20. See *Daily News*, 22 November 2011.
21. US\$ 1.5-1.6 million of arms and ammunitions each year in 2012-2014, most them bought from the US (US\$ 1 million) and far behind the Czech Republic, Italy, South Africa and the UK, see <http://comtrade.un.org/data/>
22. See [http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc\\_147401.pdf](http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc_147401.pdf)
23. According to Global Trade Atlas statistics, China-Tanzania trade increased from US\$ 0.09 billion in 2000 to US\$ 3.8 billion in 2014 (6 month annualised).
24. Since some Chinese goods transit through Dubai and South Africa, Chinese market share (12 per cent) is probably higher.
25. See <http://www.gtis.com/gta> and [http://www.trademap.org/tradestat/Country\\_SelProductCountry\\_TS.aspx](http://www.trademap.org/tradestat/Country_SelProductCountry_TS.aspx)
26. See [www.trademap.org/tradestat/Country\\_SelProductCountry\\_TS.aspx](http://www.trademap.org/tradestat/Country_SelProductCountry_TS.aspx)
27. *Ibid.*
28. See <http://www.tanzaniainvest.com/industry/china-invest-dar-es-salaam>
29. However, these figures may add FDI and construction contracts.
30. Consulted at <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>, August 20 2014. As these projects necessitate some years to be implemented, they may be considered as

“leading indicators” which underestimate the number of investments as the majority of Chinese firms are small and medium sized (UNCTAD, 2014).

31. See *Global Construction Review*, 4 June 2015, <http://www.globalconstructionreview.com/markets/chinese-firms-wi8n-9bn-tanzanian-rail-sch6me/>
32. See *Reuters*, 10 November 2015, <http://af.reuters.com/article/topNews/idAFKCN0SZ1LW20151110> and *Railway Gazette*, 11 November 2015, <http://www.railwaygazette.com/news/traction-rolling-stock/single-view/view/tazara-takes-delivery-of-locos-and-coaches.html>

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**Chinese investment in Africa: how the New Normal can leverage Agenda 2063 for sustainable economic co-operation\***

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**Abstract**

Since the 1950s, China-Africa co-operation thrived at the back of China's rapid and accelerated growth. After the financial crisis of 2007-2009 however, and especially since 2014, the realities of China's New Normal which requires internal structural transformation has created the need for outward structural changes with partners. This paper attempts to provide the direction for Chinese investment in Africa under the new economic growth model by analysing the flow of Chinese investment to Africa and the role in economic development. Findings show that market and resource seeking principles are still driving Chinese investment on the continent with opportunities and challenges going forward. An 'integration-interaction' framework is used to demonstrate how Chinese investment in Africa can be streamlined for improved and effective mutual development.

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## Introduction

Since the implementation of the 'Open Door' policy in 1978, China has witnessed soaring economic development and is currently one of the biggest recipients of foreign direct investment (FDI) around the globe, while at the same time, China has emerged as a major global investor by adopting the 'Going Out' strategy (UNCTAD, 2015). Following a double-digit growth over the past three decades, China's economy experienced a marked slowdown over the last two years, and is entering a 'New Normal', a slower but more sustainable growth path with solid steps towards the Chinese dream,<sup>1</sup> which was proposed by China's President, Xi Jinping, in 2014. The New Normal features medium-to-high speed growth instead of previous high speed growth and is increasingly driven by innovation instead of input and investment. The economic structure in the New Normal will be constantly improved and upgraded (Xinhua Net, 2014). In addition, China introduced the Belt and Road initiative, namely the Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road, which provides a new means for China under the New Normal to develop its domestic development and link Europe, Asia and Africa (He, 2015). Along with these initiatives, China's New Normal will not only transform the domestic economy but also its external co-operation.

One such trade and economic co-operation which continues to attract attention from Chinese investors with potential to be affected under the New Normal is China - Africa co-operation. Africa's investment environment has improved over the past three decades and is among the fastest growing economies in the world (AfDB, 2014). Agenda 2063, a 50-year development plan which is used to build an integrated, prosperous and peaceful Africa is considered as one of the efforts to pursue economic development in Africa. The agenda is comprised of seven primary aspirations, 18 goals and 44 priority areas, further expressed into 161 different national-level targets (DeGhetto, Gray and Kiggundu, 2016). As a major strategic partner to Africa, China's investment is without a doubt an important force to advance Africa's development. Investment co-operation, the engine of China-Africa trade and economic co-operation, has been enriched along with a series of mechanisms and programs, such as the Forum on China-Africa Cooperation (FOCAC) and the 'Three Networks and

Industrialisation' program (that is, the high-speed railway, expressway, regional aviation networks and infrastructure industrialisation). Chinese FDI stocks (flows) to Africa reached US\$ 32.35 (US\$ 3.20) billion by the end of 2014, and more than 3,000 Chinese firms are running businesses in Africa, covering mining, manufacturing, construction, finance and other sectors according to the 2014 Statistical Bulletin of China's Outward FDI (OFDI) (henceforth the 2014 Bulletin).

In spite of the above, enhanced investment co-operation between China and Africa, there is a debate among scholars and researchers whether Chinese investment is good or bad for Africa (Babatunde, 2013; Jauch, 2011; Sutton, 2010). Considering its significant role in Africa's development, it seems necessary to move the debate ahead, to how Chinese investment can further improve benefits for both Africa and China, which is the focus of this study. The objectives of this study are thus to analyse the influence of Chinese investment on Africa's economic development, to examine the opportunities and challenges that China-Africa investment co-operation is facing under the New Normal and with the consideration of global and African context, as well as to provide implications for sustainable investment co-operation and common development.

### **Chinese investment in Africa: theoretical analysis and facts**

Over the past three decades, China-Africa development practitioners have continued honing investment opportunities between the two partners, while researchers have been investigating conditions under which such investments are made. Some critics have argued that Chinese investment in Africa, during this period, was driven by the need for raw materials to feed its double-digit growth with little investment into the socio economic wellbeing of African countries (Hanauer and Morris, 2014). Others have pointed out that African countries have merely become markets for cheaper Chinese-manufactured imports which in turn erodes local production. This has led to some cynics comparing Chinese investment in Africa to neo-colonialism (Marton and Matura, 2011). Proponents of Chinese investment in Africa on the other hand have established the link (albeit indirect) between the two partners' investment co-operation and poverty reduction, cultural exchange, education and infrastructure

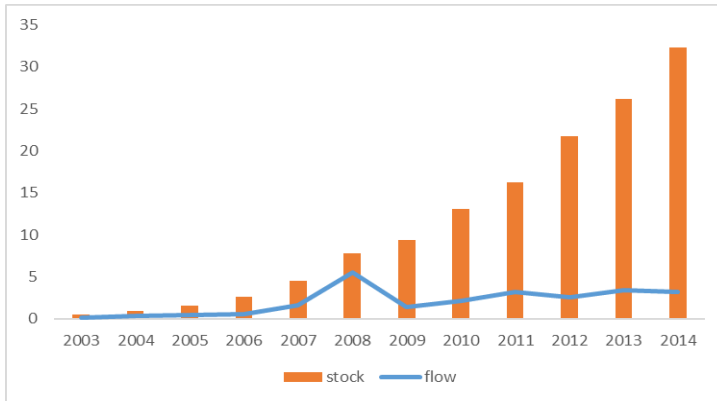


development (Pigato and Tang, 2015; Van der Lugt et al., 2011). This section presents the current situation of Chinese investment in Africa, its motives and its influence.

### ***Basic statistics***

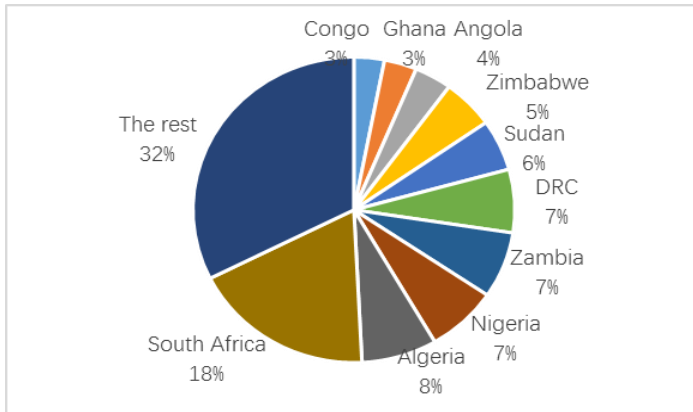
Since the 1990s, China started to escalate its investment in Africa, which rapidly increased after the launch of FOCAC in 2000 (MOC, 2010). Given the improved performance of most African economies<sup>2</sup> and enhanced China-Africa co-operation mechanisms, Chinese investors have continued to express a desire to expand the scale, widen the field and diversify the approaches of its investment in Africa (Zhang and Zhang, 2016).

In terms of the scale of investment, China's FDI stocks to Africa reached US\$ 32.35 billion by the end of 2014, climbing from US\$ 490 million in 2003 (see Figure 1). Despite a dramatic growth presented in recent years, China's FDI stocks to Africa accounts for just 3.7 per cent of overall China's OFDI according to the 2014 Bulletin. It was also observed that FDI flows from China to Africa was stagnant in the last two years, which is partly due to the slowdown in China's economic growth rate, the sluggish global economy and international commodity price volatility (AfDB et al., 2016). Preliminary results from the 2015 FOCAC Johannesburg Summit aimed at stimulating Chinese investment in Africa, indicates that China's non-financial FDI flows to Africa came in at US\$ 1.3 billion by the first half of 2016, up by ten per cent year-to-year (MOC, 2016). It should further be noted that China has become a major investor in Africa at just three per cent of total inward FDI (IFDI) into the continent (Guerrero and Manji, 2008; Mungai, 2015).

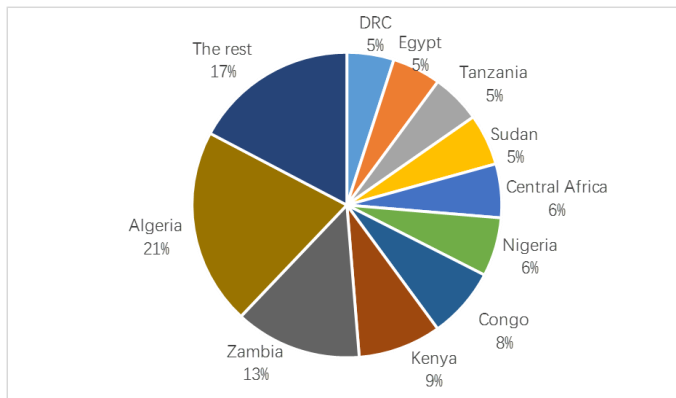


**Figure 1.** China's FDI to Africa, stocks and flows (billion US\$). Source: Authors' own construction, data were collected from the 2014 Statistical Bulletin of China's OFDI

China is steadily strengthening investment ties with Africa and the destinations covered have increased from 73 per cent of African countries at the end of 2003 to 86.7 per cent in 2014<sup>3</sup>, and they are not limited to resource-rich countries. It is, however, evident from the data that the share of China's FDI to Africa is unbalanced across countries. For instance, the Top ten receivers, according to China's FDI stocks at the end of 2014, are South Africa, Algeria, Nigeria, Zambia, the Democratic Republic of Congo (DRC), Sudan, Zimbabwe, Angola, Ghana and the Republic of Congo (Congo), accounting for 67.6 per cent of total FDI stocks allocated to Africa (see Figure 2). Similarly, according to China's OFDI flows, at the end of 2014, the Top ten receivers, that is, Algeria, Zambia, Kenya, Congo, Nigeria, Central Africa, Sudan, Tanzania, Egypt and DRC, attracted 82.8 per cent of Chinese FDI (see Figure 3).

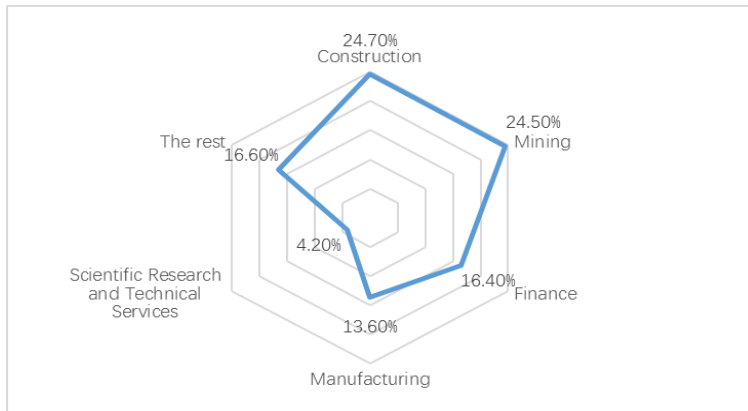


**Figure 2.** Geographic distribution of China’s FDI stocks, 2014. Source: Authors’ own construction, data were collected from the 2014 Statistical Bulletin of China’s OFDI

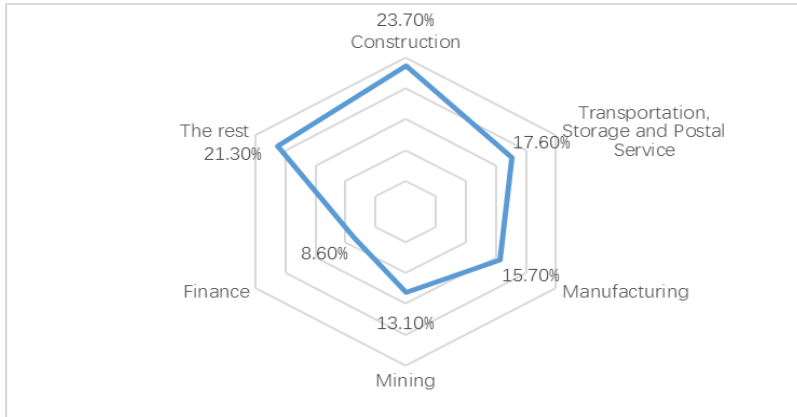


**Figure 3.** Geographic distribution of China’s FDI flows, 2014. Source: Authors’ own construction, data were collected from the 2014 Statistical Bulletin of China’s OFDI

The results also show that industrial distribution and sources of investment are becoming increasingly diversified. Specifically, China’s FDI stocks cover almost all sectors, although there is still high concentration in some fields. By the end of 2014, China’s FDI stocks to Africa were concentrated in the following sectors: Construction (24.7 per cent), Mining (24.5 per cent), Finance (16.4 per cent), Manufacturing (13.6 per cent) and Scientific Research and Technical Services (4.2 per cent) (see Figure 4). China’s FDI stocks to Africa in the above-mentioned sectors reached US\$ 26.98 billion, representing 83.4 per cent of total FDI stocks. Moreover, industrial distribution of China’s FDI flows to Africa in 2014 concentrated on Construction (23.7 per cent), Transportation, Storage and Postal Service (17.6 per cent), Manufacturing (15.7 per cent), Mining (13.1 per cent) and Finance (8.6 per cent), accounting for 78.7 per cent of total FDI flows with US\$ 2.519 billion (see Figure 5).



**Figure 4.** Industrial distribution of China’s OFDI stocks to Africa, 2014. Source: Authors’ own construction, data were collected from the Report on Development of China’s Outward Investment and Economic Cooperation (2015)



**Figure 5.** Industrial distribution of China's OFDI flows to Africa, 2014. Source: Authors' own construction, data were collected from the 2014 Statistical Bulletin of China's OFDI

Statistics further show that by the end of 2014, more than 3,000 Chinese firms were running businesses in Africa, of which more than 70 per cent are private companies and small medium-sized enterprises (SMEs); with banks (for example, Industrial and Commercial Bank of China) and non-bank financial institutions (for example, China-Africa Development Fund) also becoming more active in recent years. Their investment approaches are also diverse, ranging from sole proprietorships, joint ventures, mergers and acquisitions (M&A) and contractual joint ventures. At the same time, overseas economic and trade co-operation zones (ETCZs) have gained popularity for China's collective investment in Africa with about 20 ETCZs either in operation or under construction across the continent at the end of November 2015.

### ***Determinants of Chinese investment in Africa***

The eclectic paradigm to FDI studies which was initially developed by Dunning (1977) provides a good approach for conceptualising multinational enterprises (MNEs). Eclectic paradigm, also known as ownership, location and internalisation

(OLI) paradigm, suggests that OLI advantages of a company potentially determine its decision to become a multinational (Dunning, 1980, 2000; Dunning and Lundan, 2008). Based on the OLI paradigm, over the past 35 years of economic reform, Chinese companies have developed ownership advantages which has enabled them to compete with MNEs in China. For Chinese companies investing in Africa, improved economic conditions of most African countries, rich natural resource and large potential markets all contribute towards location advantages for them (Chun, 2013). Moreover, the continent's drive for infrastructure development, institutional environment reforms and increased trade relationships with China have also added to internalisation advantage for Chinese companies running businesses in Africa. OLI advantages thus underline the possibility and capability of Chinese companies to invest in Africa.

The motives behind FDI for Chinese MNEs, which have been discussed for some time, can be generally divided into four categories, that is, market-seeking, efficiency-seeking, resource-seeking and strategic asset seeking (Dunning, 1993, 2000). Strategic asset-seeking FDI is used to seek new technologies and improve productivity, which generally occurs when investing in industrialised countries (Gugler and Boie, 2009); and thus seems inappropriate to explain Chinese investment in Africa. Efficiency-seeking FDI is commonly observed in industries such as electrical and electronic products, garments and IT services (UNCTAD, 2006), those industries are however not what Chinese investors concentrate on in Africa at present. Thus, efficiency-seeking is currently not a dominant motive for Chinese companies investing in Africa. Nonetheless, it is believed that with an increase in skilled labour and improved infrastructure in Africa, as well as rising cost of labour in China and China's industries being diversified, efficiency-seeking is expected to become a major determinant for Chinese investment towards Africa.

Market-seeking and resource-seeking FDIs are therefore still the main types of Chinese FDI in Africa. Market-seeking FDI is driven by factors such as host country's market size, per capita income and market potential (Chen et al., 2015; Dunning and Narula, 2004), and aimed to gain access to host-country's domestic markets (Al-Sadig, 2013; Dunning, 2000). Market seeking is the most common type of interna-

tional investment for developing countries MNEs and is observed across most industries (UNCTAD, 2006). Typically, market-seeking FDI is a result of successful trade co-operation (Anyanwu, 2012; Gugler and Boie, 2009). Transportation costs and government regulations are also important factors for market-seeking FDI (Colen et al., 2013; Kudina and Jakubiak, 2011). To a fairer extent, Chinese investment in Africa is characterised by similar features. For instance, South Africa, the only African country in China's Top 20 OFDI stock destinations worldwide according to the 2014 Bulletin, is characterised with relatively high levels of gross domestic product (GDP) and industrialisation, a sizable population as well as a close trade relationship with China. The other Top ten Chinese FDI stock destinations in Africa, such as Algeria, Nigeria, Sudan and Angola, are ranked high in terms of GDP on the continent. Moreover, Nigeria, DRC, Sudan and Algeria own sizable populations among African countries, suggesting their big potential market. Another characteristic for determining market-seeking FDI is proximity between FDI source and the host country where for instance Zhang and Liu (2013) find that Chinese investors tend to invest more in African countries that possess cultural proximity which is proxied by the proportion of ethnic Chinese population in host countries.

For many international investors coming to Africa, resource-seeking has been one of the major motives (Anyanwu, 2011) and China is no exception (Cissé, 2012). Many top ranked Chinese FDI receivers in Africa are resource-rich countries, even though it is not accurate to conclude that Chinese investment to Africa is only to exploit Africa's natural resources as some African host countries of Chinese investments are neither oil nor mineral rich countries. As indicated in Figures 4 and 5, the mining sector accounts for only 24.5 per cent and for 13.1 per cent of China's FDI stocks and flows to Africa in 2014. Similar conclusions are reached when considering Chinese loans to Africa where there is little evidence to confirm that Chinese loans are only arranged for natural resource extraction. Angola (a resource rich country) received the most Chinese loans over the past years, followed by Ethiopia which is not a resource-rich country. Ethiopia does not produce raw materials critical to China, and does not even have direct access to the sea (Adem, 2012).

Put differently, China's FDI to Africa relies on resources, economy, market, labour, infrastructure and other conditions of African host countries. In recent years, the African institutional environment played an increasingly crucial role in directing Chinese investment. Chen et al. (2012) submit that the difference in the institutional environment of host African countries and China, *i.e.* institutional distance, is significantly related to China's investment in Africa, such as China's credit policy, bilateral investment treaty and taxation treaty, as well as Africa's trade, business, fiscal and labour freedom. Dong et al. (2001) find similar results. Furthermore, the motives behind FDI are dynamic and with the advancement of economic, social and institutional conditions in both China and Africa, the determinants of Chinese investment in Africa may also change.

### ***The influence of Chinese investment on Africa's economic development***

FDI, as an important source of international capital flows and international economic activities participation, plays an increased influential role in the international market and provides countries an effective approach towards international division of labour (Ruggiero, 1996; Siebert, 2006). Many developing countries consider FDI as a vital component of their national economic development strategy (Ayanwale, 2007). Based on existing studies, the influence of FDI could be reflected in economic growth, domestic investment, trade export, employment and human capital as well as technology spillovers. Along with the growing investment from China to Africa, Chinese investment has, and will continue influencing Africa's economic development in many aspects.

In the first instance, Chinese investment could speed up infrastructure construction and boost African integration. As indicated by the African Union (AU) in Agenda 2063, by 2063 Africa would 'have world class, integrative infrastructure that crisscrosses the continent' (African Union, 2014: 4), and 'the necessary infrastructure will be in place to support Africa's accelerated integration and growth, technological transformation, trade and development' (African Union, 2014: 5). Infrastructure includes but is not limited to roads and highways, railways, airports, maritime ports as well as telecommunications and digital infrastructure. Earlier in 2014, Chinese Premier Li Keqiang proposed the '461' Africa-China Co-operation Framework and



the 'Three Networks and Industrialisation' program. In addition, China and the AU have signed a Memorandum of Understanding (MoU) to support Africa with infrastructure development in 2015; the FOCAC Johannesburg Summit emphasised on actively implementing the MoU, and took infrastructure development as an important part of the FOCAC Johannesburg Action Plan (2016-2018) (henceforth the Action Plan).

A number of Chinese companies are visibly participating in roads, airports, industrial zones and maritime ports construction in many African countries, such as Ethiopia, Djibouti, Kenya and Nigeria, largely closing up infrastructure deficiency for many African countries. The Ethiopia-Djibouti railway (constructed by China Railway Group and China Civil Engineering Construction and opened in October 2016) is one of the most recent major infrastructure developments by China in Africa and it is predicted to lift the economies of Ethiopia and Djibouti, boost Africa's inter-connection and integration process, as well as create better conditions for Chinese and foreign investment. Chinese companies are expected to play an increasingly prominent role in the development of Africa's power sector, occupying 30 per cent of the region's capacity; with over half of the new projects being in renewable energy (International Energy Agency, 2016).

Furthermore, Chinese investment could promote Africa's industrial structure, transform industrialisation, as well as enhance Africa's linkages with global value chains. Agenda 2063 indicates that access to global and regional value chains with high value added goods benefit Africa's development. However, the common way for most African countries to participate in global value chains is through exporting natural resources, mainly because of weak domestic productive capacity and infrastructure (AfDB et al., 2014). This approach affects the continent's economy negatively not only due to high vulnerability to price volatility of natural resource but also because most value addition to Africa is not done locally, leading to weak and or no relationship to gains in employment from participation in global value chains (Ibid). The disconnect between domestic capabilities for most African countries and global value chains optimal participation requirements are attributed to underdeveloped manufacturing sectors, which at the same time hamper the continent's development. As

presented in Agenda 2063, African countries need to accelerate manufacturing activities by widening their participation along the global value chains through the development of efficient logistics, improved business environment and advanced domestic productive capacities to influence the governance structures of economic activities. African industrialisation is an important consideration within China-Africa investment co-operation, and is highlighted in many occasions, such as the Action Plan of the 2015 FOCAC Johannesburg Summit and the G20 Initiative on Supporting Industrialisation in Africa and least developed countries (LDCs) at the 2016 G20 Hangzhou Summit.

Following the above stated Action Plan, China set up a China-Africa Production Capacity Cooperation Fund to support China-Africa industry partnering and industrial capacity co-operation, with an initial instalment of US\$ 10 billion, and expanded the China-Africa Development Fund from US\$ 5 billion to US\$ 10 billion. In addition, China has signed framework agreements for production capacity co-operation with seven countries that have major infrastructure development projects (ports and rails) with economic corridors and/or free industrial zones, namely Congo, Egypt, Ethiopia, Mozambique, Nigeria, Sudan and Zimbabwe. China-Africa industrial capacity (high-quality production capacity) co-operation, such as in the form of ETCZs, will bring in technology and management experience, advance production capacity, technology transformation as well as optimise export structure, ultimately to have value addition. Accordingly, Chinese investment will enhance opportunities for African countries to widely participate in global value chains with improved value added goods.

Equally important, Chinese investment could help create productive employment and cultivate skilled labour. Unemployment is one of the main social challenges facing African countries with underemployment rates above 75 per cent for some countries, leading to extreme poverty being recorded among 34.3 per cent of the employed population (International Labour Organisation, 2016). Though Africa witnessed significant economic growth over the past few years, averaging five per cent (UNECA, 2015), this advancement has not translated into wellbeing for most people (Ernst and Young, 2015). The vision of Agenda 2063 of a ‘people-centered, prosper-

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ous continent' demonstrates job creation as an indispensable component to realise real human development. The high unemployment rates among African countries are partly due to capital-intensive industrial structures and the exportation of raw material which does not generate meaningful employment on the continent. Africa received 17.1 per cent of global FDI inflows in 2014, contrast with only 8.7 per cent of jobs (Ernst and Young, 2015). The mismatch between FDI inflows and jobs created partially confirm the fact that FDI activities only create considerable employment if they are labour intensive (Herzer et al., 2008; Kim, 2009). China has the world's largest manufacturing workforce with more than 125 million people, of which 85 million are in labour intensive industries. Over the past years, China has allocated part of labour intensive industries to Africa, thereby localising the workforce and creating numerous job opportunities. Sautman and Yan (2015) find that Chinese companies in extractive industries, manufacturing and construction mostly have 80-95 per cent local workforces. They also find that some industries have relatively more Chinese workforce due to shortages of local engineers and skilled labour, as well as technicians. Notwithstanding the contribution of these temporary relief measures, long term plans in the form of training opportunities are underway. For instance, China has trained over 60,000 nationals of African countries and has sent more than 350,000 technical professionals to Africa (Gumede, 2015). Some Chinese companies are setting good examples for employment creation in Africa. For instance, Huawei - a giant Chinese telecom company, has set up six training centres across Africa and provides training to 12,000 African engineers and workers annually (Wang and Zadek, 2016).

Despite the potential contribution of Chinese investment, it has been criticised of negative influence on Africa's domestic enterprises and local environment, as well as labour disputes (Babatunde, 2013; Jauch, 2011). There is growing concern on how Chinese investors improve their investment outcomes in Africa to achieve mutual development - discussed in the next sections.

### **Opportunities and challenges in the new context**

As China-Africa investment co-operation enters a new developmental context, it is important to examine some of the opportunities and challenges that are likely to

emerge for advancing sustainable economic co-operation (especially investment).

### ***Development opportunities***

Even though official accounts indicate that China entered the New Normal, a period of slow growth in 2014, the transition started as far back as 2010, following the 2007-2009 financial crisis (Pigato and Tang, 2015). This new growth does not only affect China but the world at large. Some authors (for example, Economy et al., 2016) have questioned the ability of world economies to adjust to China's New Normal and how it will affect the development of those economies that greatly depend on China for trade. While such questions are important for economies such as Africa, such effects have to also be addressed in a more holistic approach, taking into consideration what the New Normal means to China.

Green and Stern (2015) outline opportunities and challenges for China under the New Normal as follows: firstly, it is expected that, the slowing GDP growth (of lower than seven per cent per year) will be characterised with inward introspection and will potentially spur South-South co-operation and its respective sub-regional groups. Benefits for African countries within the regional perspective will be realised in a form of increased market diversification (as some countries depend on mono products destined to mono markets) and; through favourable and bigger market access (if terms are better than those under other trade agreements *i.e.* Economic Partnership Agreements with the European Union). Potential regional growth will also be realised through China's Belt and Road initiative, a crucial strategy to connect Europe, Asia and Africa through infrastructure, trade and investment – a point discussed later in this section. Secondly, with slower economic growth, there will be tighter control of resources to ensure optimal benefits and reduce corrupt practices which were reported under the old normal, resulting in efficient allocation and more targeted implementation of programs.<sup>4</sup> Lastly, the New Normal growth, as President Xi Jinping explained, will 'lead to sustainable and high quality growth for the coming decades' (Lim, 2016). This means that China's growth will focus on improving domestic markets to stimulate local consumption and transition from low-value added to high-value added goods production. In order to

improve the quality of their inputs, China is expected to intensify investment in science and technology. At the same time, China will export excess and quality production capacity to other developing countries such as African countries.

While China is going through the New Normal, Africa has also adopted a new co-ordinated development trajectory: 'Agenda 2063'. The opportunities presented under China's New Normal and Agenda 2063 are multifaceted. First, there has been high-level mutual visits between China-Africa in recent years, which will be advanced at the new stage of China-Africa co-operation to seek higher quality and more effective and all-round development. For instance, in 2016 (until July), Zhang Dejiang (Chairman of the Standing Committee of the National People's Congress), Yu Zhengsheng (Chairman of the Chinese People's Political Consultative Conference) and Yang Jiechi (State Councillor) visited Africa. In early 2016, the presidents of Nigeria, Mozambique, Morocco, Togo and Congo also paid state visits to China. During the 2016 G20 Hangzhou summit, chairperson of the AU, presidents of South Africa, Egypt and Senegal were all invited to visit China. These efforts made by China and Africa provide solid political backing for the development of China-Africa investment co-operation.

Additionally, strategic co-ordination between the Belt and Road initiative and Agenda 2063 offers many co-operation possibilities for Chinese and African investors. The '461' China-Africa Co-operation Framework and the 'Three Networks and Industrialisation' program could be considered a rehearsal to help align and co-ordinate these two development strategies (Shu, 2015). In his address at the 5<sup>th</sup> Meeting of China-Africa Think Tanks Forum, the Director-General of the Department of African Affairs of the Foreign Ministry of PRC announced that following the Action Plan<sup>5</sup> and 'based on comprehensive research, China has listed Ethiopia, Kenya, Tanzania and the Republic of Congo as demonstration and pioneering countries for such co-operation, while South Africa is designated as the beacon of Africa's industrialisation. Egypt, Angola and Mozambique will be priority partners for production capacity co-operation' (Lin, 2016). Subsequently, China will 'allocate resources to build demonstration zones to these partners, and combine the construction of large infrastructure projects, so as to build industrial belts along the

routes and achieve sound interaction between large-scale infrastructure projects and industrial development' (Ibid). China has underscored the fact that countries that are not demonstration cases are not excluded and will continue to co-operate through established strategies and mechanisms.

Lastly, the opportunities presented under Agenda 2063 is that, in addition to having a more coordinated strategic framework for development, the AU under the New Partnership for Africa's Development (NEPAD) has also identified internal sources of funding from which resources to finance over 70 per cent of development initiatives can be drawn (Fassi and Aggad, 2014). This also means that, investors do not have to deal with over 54 investment plans of individual African countries and toil in finding investment deals. Instead, they can engage through pre-assessed bankable projects under Agenda 2063. Thus, if Chinese investors have difficulties in finding projects, they can leverage on deals through Agenda 2063 action plan (Robertson and Benabdallah, 2016). With all these opportunities under both the New Normal and Agenda 2063, it is important to examine how they are likely to influence investments between the partners going forward and identify possible challenges.

### ***Possible Challenges***

Using the view of Chinese investment in Africa under the old normal growth period where the focus was on accelerating growth, it should follow that a slowdown in China's economic activities be reflected in declining investments. However, as presented in the data above and as reported by Pigato and Tang (2015), Chinese investments to Africa has continued to increase during the transition period and during the New Normal period. However, there are challenges (both endogenic and exogenic to the co-operation) that are likely to influence Chinese investment in Africa.

In the first instance, policy space of China-Africa co-operation is restricted. In the past ten years, the relatively relaxed international policy space that offered a good environment for rapid development of the China-Africa partnership, is expected to gradually weaken (Zhang, 2015). Along with Africa rising and increasing attention from the international community, a series of co-operation mechanisms and systems

will be strengthened or built. In addition, on the backdrop of neo-liberalism and the response to United Nation's sustainable development goals (SDGs), African countries are becoming more concerned with long-term development strategies and sustainable development. These facts bring normative constraints and competitive pressure towards China-Africa co-operation, and more importantly, restrict the policy space of further China-Africa co-operation.

Apart from that, following the launch of the SDGs, Africa put forward a Common Africa Position on the Post-2015 Development Agenda, to provide a strategic focus for Africa's development. It is worth considering how China can develop long-term and sustainable co-operation mechanisms with Africa on the basis of its own development strategy and at the global level. It should be noted that responsible investment, among others, has become key to building sustainable impact for a host country. Unlike political, legal and financial risks which were widely discussed between China-Africa investment co-operation (Shen and Bao, 2013), risks of environmental, social, and governance (ESG) issues have not been systematically studied and should not be ignored. Such new types of risk are related to political and economic security (Zhang, 2016). Though the Action Plan reached a consensus in green and low-carbon development and Chinese firms are observed becoming more socially responsible, at home and abroad, they are, however, still insufficiently engaging in ESG issues. It is thus worth pondering how Chinese government, institutional investors, enterprises, banks and other stakeholders can prevent and respond to such kind of risks in China-Africa investment co-operation.

Moreover, Africa's regional integration challenges China's ability to deal with bilateral and sub-regional multilateral relations. For instance, there are policy level commitments by the Chinese government through the FOCAC to not only diversify investments to cover more sectors but also to increase the value of investment (Sun, 2015). China's commitments to Africa while working with individual countries will create animosity as to who is getting what from the pot. China has to deal with bilateral relations, and at the same time needs to move towards addressing contradictions and differences among African countries and regions through Africa's

integration mechanisms. Similarly, they need to learn how to deal with competition and co-operation with other economies.

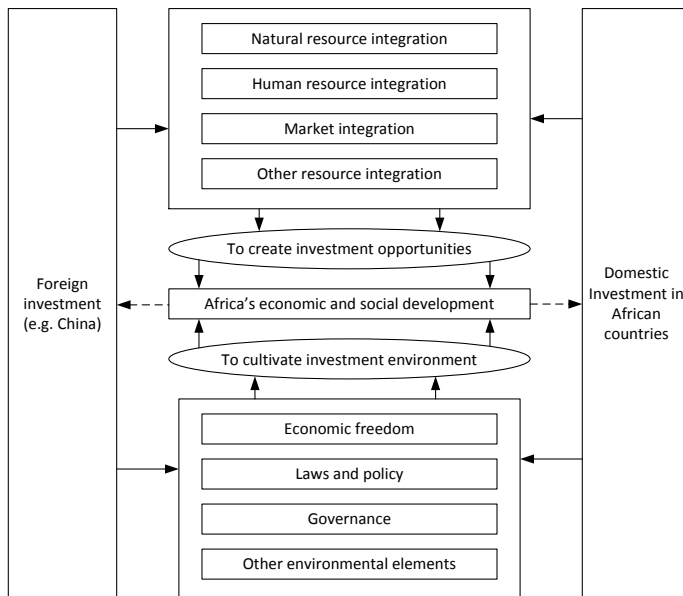
Despite Agenda 2063 setting Africa's development priorities over the next 50 years, there has not been mechanisms in place to coordinate and operationalise the implementation of these plans (Fassi and Aggad, 2014). While it is still too early to draw conclusive challenges associated with the absence of these mechanisms, it is important that preparations are made to ensure a strong implementation foundation from the start. This will also create trust in the strategic framework by individual countries and encourage them to avail resources to implement the framework. Nonetheless, the translation of the Agenda 2063 action plan may be a lengthy process as it will need to be inclusive of country-specific national development plan targets. The uneven development among African countries and regions, and slow pace of implementation of programs emanating out of Africa's integration platforms in general are not conducive for a smooth implementation of China-Africa investment co-operation.

### **Advancing China-Africa investment co-operation: An integration-interaction perspective and beyond**

This study takes a review of Chinese investment in Africa, analyses motives behind the investment and the influence the investment has on Africa's economic development. The significant influence to a large extent depends on certain conditions of host countries such as infrastructure, human capital, the financial market and institutions (Apergis et al., 2007; Busse and Groizard, 2008; Chen et al., 2012; Dong et al., 2011; Zhang and Liu, 2013). At the same time, the influence also lies on industries/sectors that FDI focuses on in host countries (Alfaro, 2003), and the absorptive capacity of host countries (Vu Le and Suruga, 2005). In order to have a better understanding of determinants and influence of Chinese investment in Africa, and based on the argument provided previously, we build an 'integration-interaction' analysis framework (see Figure 6), and use it to clearly address the way foreign investment influences Africa's economic development.



This framework indicates that in order to improve Africa’s economy, on the one hand, China (and other foreign investors) needs to effectively integrate their resources with African countries (that is, human resources, natural resources and market resources *et al.*), thus providing a sound investment environment for both foreign and domestic investors. On the other hand, there is an endogeneity/causality issue existing among foreign investment, domestic investment, and host countries’ investment environment; these three interact with each other. While Chinese and other foreign investors are concerned with economy, natural resources, market, labour and other conditions of African host countries when they select investment destinations; at the same time they have influence on the Africa’s investment environment.



**Figure 6.** An ‘integration-interaction’ analysis framework.  
Source: Authors’ own construction

Considering China's New Normal, Africa's Agenda 2063 and the global development context, China's investment in Africa has entered a new era. Though China's interest on natural resources like oil and minerals will remain undimmed, investors will diversify their investment and pursue sustainable co-operation. Compared to raw materials (resource-seeking investment), priorities will shift to market-seeking and efficient-seeking investment. Based on the established framework in Figure 6, it is notable that sustainable investment co-operation is unlikely to be achieved without the support from African host countries, especially institutional environment, *i.e.* economic freedom, investment policy and public governance. Therefore, narrowing down the institutional distance or differences between China and African host countries is important and urgent. Furthermore, according to opportunities and challenges presented earlier, we have suggestions beyond the framework to promote China's sustainable investment in Africa.

China's transformation from a large trading country to a big investment nation is in favour of restructuring China-Africa economic and trade co-operation; in this process, China needs to think of Agenda 2063 priorities, and also extend the thinking to new energy sources, energy conservation, environmental protection and marine industries by considering complementary industrial structure, which is beneficial for growing the African Blue and Green economies and expanding the co-operation level.

Moreover, there should be deliberate initiatives for building and upgrading industrial parks, to deepen China-Africa investment co-operation. Industrial parks are an important platform in Africa for creating synergy for both China and African countries, and they are an effective way for Chinese enterprises to conduct collective investment and to bind capital and capacity. In addition to building new parks, it is important to upgrade and transform existing zones. In addition to working as a platform for industrial transfer and to optimise construction of infrastructure and public services for attracting investors, equally important is that industrial parks should be devoted to industry chain integration. Therefore, industrial parks are not only to be used as collections of homogeneous businesses, but as links to upstream and downstream businesses. By doing so, it would be possible for enterprises in

industrial parks to get the cluster advantages and have chances to promote China-Africa industrialisation co-operation in depth. The critical role played by intelligence support from African and Chinese experts and training related to management, technical and basic skills in the industrial parks also cannot be ignored.

Further, enlarging financing channels to provide sufficient financial support for China-Africa investment co-operation should be promoted. The acceleration of China-Africa investment co-operation process has triggered huge demand for capital and provided much space for China-Africa financial co-operation. 'Three networks' and other infrastructure programs need an enormous amount of money to support implementation. Given that those programs are featured with long investment pay-back periods and uncertain returns, as well as most African countries being under-developed in their financial markets, development finance thus holds a dominant position in this type of investment. However, in some African countries with sound legal and business environment, it is worth exploring diversified financing approaches. For commercial banks, there are opportunities to strengthen institutions and business co-operation, that is besides setting new representative offices or branches, it would be worth seeking local banking partners. For insurance companies, it could be beneficial to carry out investment activities related to personal and property insurance. Moreover, China and African countries need to seek co-operation in the securities and bond markets to widen direct financing channels. China's qualified domestic institutional investors (QDIIs) and Africa's qualified foreign institutional investors (QFIIs) are encouraged to invest in African and Chinese market respectively. In this process, an important note is to promote the Renminbi (RMB) internationalisation, which will broaden China-Africa finance co-operation, thereby simplifying investment procedures, reducing investment costs and currency risk of Chinese investment in Africa that exerts spillover effects to China's FDI, and ultimately advancing China-Africa investment co-operation.

Last but not least, engaging in responsible investing is a pre-requisite to realise sustainable investment co-operation. Sustainable development has long been a prevalent topic, and has drawn increasing attention since the launch of the SDGs. Responsible investment is not only related to commercial areas but also to national

security. Chinese investment in Africa has been criticised as either lacking or being poor on ‘responsibility’ and ‘sustainability’. Some Chinese enterprises have introduced measures to enhance responsible and sustainable investment but these are still inadequate both in scope and level. Responsibility and sustainability issues can not only be reflected in green development co-operation projects or specific projects, but should be integrated into all projects. Sustainable development involves many aspects and it is necessary for investment entities to update relevant concepts when they implement responsible investment. Responsibility is multi-dimensional and it could be addressed from ESG aspects, which at the same time also contain numerous sub-dimensions. Multiple entities are involved in responsible investment; in addition to enterprises, for instance, institutional investors, banks, governments and non-governmental organisations all need to behave responsibly during investment processes. Special attention also needs to be paid on criteria used to evaluate the responsibility to ensure that they are of international standards but also fit local context, instead of directly copying from those used in China.

### **Concluding remarks**

China-Africa investment co-operation is evolving into a new phase along with China entering a New Normal and Africa setting new development strategies. This study sought to re-examine drivers of Chinese investment in Africa where market-seeking and resource-seeking are still being observed as the main motives. The study further investigates influences of Chinese investment on African economic development from a regional integration, industrialisation and employment creation perspectives. Moreover, opportunities and challenges in advancing sustainable development co-operation between China and Africa within the New Normal and Agenda 2063 were explored. An ‘integration-interaction’ analysis framework was developed to provide a better understanding of China-Africa development co-operation. Suggestions are made based on, and beyond the established framework; indicating that the achievement of a sustainable investment co-operation by China is unlikely to be achieved without the support from African host countries, especially with regards to their institutional environment.

## Endnotes

1. The Chinese dream is an embodiment of China's aspiration for national rejuvenation, fundamentally aimed at achieving prosperity for the country, renewal of the nation and happiness for the citizens (Glaser, 2014; Sun and Xiao, 2015).
2. According to the African Development Bank (2014: 2) African economies have seen significant and unprecedented growth in terms of human development, economic growth, infrastructure development, governance, regional integration, mainly 'driven by strong domestic demand, improved macroeconomic management, a growing middleclass, and increased political stability'.
3. For more details, please refer to the Ministry of Commerce (MOC), National Bureau of Statistics of the People's Republic of China (PRC) and SAFE (2014).
4. China's old normal growth refers to the high rapid growth, often referred to as double-digit growth that the country experienced over the past three decades (Green and Stern, 2015).
5. As indicated in the Action Plan (Section 3.2.4), China and 49 African countries agree to 'select several African countries to set up pilot and demonstration programs...support the development of infrastructure and public services facilities' and 'explore effective methods and offer a co-operation model for driving forward China-Africa industrial partnering and industrial capacity co-operation in a comprehensive and orderly fashion'.

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## **The rise of BRICS development finance institutions: A comprehensive look into the New Development Bank and the Contingency Reserve Arrangement**

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### **Abstract**

At the fifth BRICS summit in 2013, the BRICS countries (Brazil-Russia-India-China-South Africa) agreed to form new multi-lateral development financial institutions such as the New Development Bank and the Contingent Reserve Arrangement. These new institutions are intended to perform similar roles to that of previously established international development institutions, particularly the World Bank and the International Monetary Fund while avoiding their biases towards lending to developing nations. This paper examines the role that these institutions play in changing the international financial architecture of development finance, particularly infrastructure development in the BRICS countries for the purposes of stimulating further trade and investment opportunities. It argues that the New Development Bank and Contingent Reserve Arrangement faces many challenges, such as issues of governance structures and decision making procedures which require integrity, transparency and political immunity in making lending decisions. It will also examine the role of China as a key partner and major source of capital in these development projects and, as well as its interests in strengthening its political and economic ties with other developing countries.



## Introduction

The association of five major emerging national economies, namely; Brazil, Russia, India, China and South Africa (BRICS) has a special agenda towards assisting the Global South achieving its objectives of eradicating extreme poverty, reducing inequality and achieving sustainable development. Despite remarkable steps made in reducing poverty within India and China, BRICS countries still house nearly half of the world's poor and with the exception of Brazil have experienced a rise in inequality in recent years. The creation of the BRICS Development Bank or the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) offers a real and concrete opportunity for meaningful reforms of the global development architecture, while ensuring that development financing is sensitive to the respective needs of BRICS countries such as their poorest and most marginalised communities (OXFAM, 2014).

The NDB and CRA are responses borne out of frustration with the developmental agendas and policies of existing international development institutions particularly the World Bank and the International Monetary Fund (IMF) (Cattaneo, Bizwick and Fryer, 2015). Prior to the establishment of the NDB and CRA, BRICS countries have individually devised ways to subvert from the bias of the Bretton Woods institutions in particular the IMF and World Bank. For example, India, a signatory in the Bretton Woods agreement in 1944, balanced its development objectives by partnering with the Bretton Woods institutions while pursuing its own developmental trajectories locally such as through the nationalisation of the Indian National Reserve Bank in 1947 (Singh and Mukamba, 2015). Similarly, China took on a similar approach with the 1994 formation of the Chinese Development Bank (CDB) and the 2014 Silk Road Fund that supported various initiatives on structural and socio-economic development in Africa, Latin America, Asia and Europe. Other initiatives included an earlier prototype of a Global South centric development bank, namely the 1959 Inter

-American Development Bank (IDB) but it was largely unsuccessful given its funding limitations at the time.

Although the NDB and CRA has given rise to structural changes in international development aid governance, there exist deep concerns about the operations of these institutions in BRICS countries regarding their ability to push towards inclusive and sustainable growth. Einchengreen (2014) in Cattaneo *et al.* (2015), criticised the conflicting aims of the CRA such as its ability to balance incompatible interests of borrowers and lenders during financial crises. Also, other observers have questioned the NDB's capacity to finance small and medium enterprises (SMEs).

Against this background, this paper explores the NDB and the CRA contribution to international development financial institutions' reform. It addresses the necessity of the NDB and CRA in supplementing financial proceeds from various BRICS' national development banks. As such, the present structure and operations of the NDB and the CRA alongside existing regional and international financial institutions in pursuit of the BRICS' economies development agenda is explored. The first section reviews literature from Latin America and India towards development finance institutionalisation of the BRICS. The second section discusses the BRICS national development banks in their individual capacities. Following is a discussion on the structure, operations and limitations of the NDB and CRA. Conclusions and policy recommendations are offered in the last section.

### **Literature Review**

This section provides specific background literature on development financial institutions in Latin America and India that pave way for the proposal and development of the NDB and the CRA. The Latin American countries as well as India are chosen due to their active role in shaping the global financial systems in their relevant economies. The Latin American region has a variety of regional, monetary and financial institutions operational since the beginning of the 20<sup>th</sup> century without notable failures (Avalle, 2013). On the other hand India was a signatory to the Bretton Woods which paved way for the establishment of the IMF and, therefore, its experiences are relevant for evaluating and understanding the

shortcomings of the IMF and the World Bank. While Russia, South Africa and China's experiences are also of interest, this paper will not address them given their more recent evolution within the international developmental landscape.

### ***Case of Latin America***

In an effort to reform the international financial architecture, particularly systems of the IMF, various regional, monetary and financial cooperation initiatives have taken centre stage since 2000. In the Latin American countries, regional economic integration enables implementation of sound macro-economic policies and prudential financial standards to cushion against financial fragility. This has led to the establishment of the Multi-lateral Development Banks (MDB) in Latin America. The core competency of the MDBs is to lend money to governments in developing countries and economies in transition. These funds, in turn, can be used to cover shortfalls in budgets or to allow governments to continue program development without having to increase their debts by borrowing from the international capital markets. As a result of providing this financial assistance, MDBs introduce their own policy agendas into the governments to which they lend money (Avalle, 2013). The policy instruments utilised under the Structural Adjustment Programs (SAPs) in Peru, Argentina and Bolivia from the 1980s through the 1990s reduced the ability of the states to provide adequate social insurance and safety nets as government budgets were cut drastically and the role of the state receded from the market (McCutchan, 2010). One prominent example of an MDB is the IDB that was established in 1959. The IDB's goal is to facilitate economic and social development in Latin America and the Caribbean and has financed projects worth over US\$ 263 million to various Latin American countries. From 1961 to 2000 annual lending grew dramatically from US\$ 264 million to US\$ 5 billion. Despite its desires to finance more projects, the IDB's ratio of approved loans is extremely low compared to that of the World Bank and the Andean Development Corporation (CAF) (Avalle, 2013).

The MDBs partner with other regional, monetary and financial institutions to support the work of infrastructure development and other government development projects (Sampaio, 2015). These institutions operate on three levels. Grants of long term

credit are classified in the first level. The second level deals with short-term external financing. In this level issues of balance of payment constraints and currency mismatches are dealt with. Moreover, bond payments, repurchase and loan approvals are facilitated. The third level engages the exchange rate system and issues of further monetary integration, an issue Latin American countries still struggle with (Sampaio, 2015). Much work has been done in Latin America on the first two levels. Regional financial institutions comprising of the Reserve Fund of Latin America (LARF), the Local Currency Payment System (LCPS) and the Reciprocity Payment and Credit Agreement (RPCA) address issues of balance of payments. Latin American countries also gain access to long term credit through the Structural Convergence fund of MERCOSUR, the River Plate Basin development fund, the Latin American bank of Foreign Trade and the Brazilian national development bank (Sampaio, 2015).

As Seatzu (2014) observes, Latin American regional multi-lateral organisations play a rapidly increasing role in the supply of development finance and technical assistance to the countries of the Latin American (LAC) region. Firstly, reserve pooling through the Andean Reserve Fund established in 1976, sub-regional multi-lateral organisations and international sub-regional banks help countries of the region to mobilise financial resources for productive activities. Second, sub-regional multi-lateral development organisations help the LAC countries to increase their role and level of integration in international capital and financial markets while also strengthening their internal capital markets. For example, they have improved their funding conditions and are now able to issue bonds in Latin American currencies. Together with global multi-lateral financial institutions, international sub-regional development banks support the Latin American countries to guard against financial fragility through liquidity support. Wealthier countries in the group, such as Brazil and Mexico continually allocate resources to these organisations as does China in the NDB and CRA perspective. These multi-lateral organisations of the LAC provide a positive platform and modelling framework in the NDB and CRA establishment. Despite the achievements of these organisations, they are not given due legal recognition within the international multilateral financial system.

### ***Case of India***

As Chandrasekhar observes (2014), India's development cooperation (IDC) from 1950 to 1980 was strongly motivated by ideology and political calculations. The IDC utilises the Indian Development Assistance as a foreign and economic policy tool to accelerate India's economic and political boom through South-South cooperation (Jobelius, 2007). IDC was founded on the main principles of sustainable and inclusive growth, non-conditionality, mutual gains, demand-driven support and the sharing of India's domestic development appearance (Singh and Mukamba, 2015). From 1990, India transitioned from a mixed-state economy towards a market-oriented economic approach. Its foreign policy became increasingly influenced by geo-economic and international political conditions; as such, India vicariously participated in a number of development forums such as the United Nations (UN), the World Trade Organisation (WTO), the World Bank and the IMF, prompting the development of other multi-lateral development institutions (Singh and Mukamba, 2015).

India has substantial experience in the operation and functioning of existing development institutions and multi-lateral institutions. In 1944, India was amongst the 44 signatories to the Bretton Wood agreement that paved way for the formation of the IMF. India was a founding member of the International Finance Corporation formed in 1956 and the International Development Association initiated in 1960. India's relationship with these international institutions was based on the North-South corporation prism, a situation where India requested financial and non-financial resources with very minimal costs (Singh and Mukamba, 2015).

Presently, India has changed its positioning towards multi-lateral and regional development institutions from that of a borrower to that of a lender. Unlike some of its BRICS counterparts, India's national development finance is managed by development financial institutions (DFIs), which came about after nationalisation of the Reserve Bank of India in 1947. The DFIs are meant to finance the country's infrastructural needs and reduce the developmental gap that separated India from developed economies. In 2015, there were more than ten national DFIs that performed regulatory, supervisory and financing roles within their sectors (Singh and Mukamba, 2015).

There has been a significant increase in domestic infrastructure spending by India's DFIs from 1990 to 2012. While achieving success in meeting several infrastructural needs, India still requires over US\$ 1 trillion in infrastructural investment to fill in its infrastructural deficit. India's DFIs, the NDB, CRA, as well as regional and multi-lateral institutions as envisaged in the World Bank strategy of inclusive growth and poverty reduction, are crucial in bridging the developmental gap (Singh and Mukamba, 2015).

### **National Banks in BRICS member countries**

To grasp an insight on effects of the NDB and CRA towards infrastructure development and financial assistance of the BRICS economies, one cannot neglect the role of the BRICS national banks, especially their role in export and foreign direct investment promotion. This section will analyse the operations of the BRICS national banks in meeting infrastructural needs and other financial assistance for the BRICS member countries. The Brazilian National Development Bank, the Russian National Development Bank, India's Export-Import Bank, China's Development Bank and the Southern African Development Bank will be discussed.

#### ***Brazilian National Development Bank (BNDES)***

The BNDES was formed to integrate Brazil together with the Latin American countries. This mandate is achieved through the provision of long-term credit for financing investment projects, acquisition of equipment and assistance towards trade in goods and services. The Finamex, an export financing line was formed by the BNDES in 1990 to promote the export of goods and services. The program became BNDES-export-import in 1997 and performs a similar role to export credit agencies in the provision of long-term financing to high-tech industries and small and emerging enterprises. From 2003 onwards, Brazil became more concerned with South-South and sub-regional collaborations. Through the South American Nations initiative of 2008,<sup>1</sup> the BNDES became committed on funding regional projects (Sampaio, 2015). The BNDES-exim provides credit shipment lines to local producers, foreign companies and other financial entities. In 2013, credit shipment lines to foreign entities accounted for 35 per cent of the US\$ 7.1 billion allocated to general export

financing (Sampaio, 2015). In 2013, the BNDES grants were focussed mainly in financing exports to Latin America. Over 57 per cent of loans were destined towards the region as compared to 34 per cent in 2009. Venezuela had the largest share of 41.2 per cent, followed by Cuba (18.3 per cent), Peru (13.9 per cent), Argentina (10.9 per cent) and Ecuador (5.4 per cent) (Sampaio, 2015).

The BNDES success lies in the intensity of grants to finance exports to the Latin American countries as shown in the rising shares directed towards Cuba and Venezuela, and a decline in disbursements for exports to the United States (US) (Sampaio, 2015). The expansion of the BNDES' grants to the Latin American countries was mostly due to market forces than the desire of the regional nations to integrate. The bank is also responsible for funding overseas projects. Examples of recently funded projects in 2014 include a port in Cuba worth US\$ 957 million and an airport in Mozambique worth US\$ 200 million (Leahy, 2015). The beneficiaries of BNDES grants are mostly economies with strong trade ties with Brazil. This is exactly the opposite of the theory on 'regional banks functions' which postulates that development finance should flow from developed to developing countries (Sampaio, 2015). The functions of the BNDES are market-oriented due to their response in funding Brazilian exports and Brazilian entities interested in establishing new business ventures within the region (Sampaio, 2015).

While the BNDES provides practical lessons for the establishment of the NDB, critics such as Mansueto Almeida<sup>2</sup> and Vinicius Carrasco<sup>3</sup> have questioned the sustainability of the BNDES projects. In some situations, the funded projects fail to protect indigenous rights or facilitate information asymmetry for active participation by all involved stakeholders. To some extent, some projects have negative environmental and social impacts and commercial benefits that override structural change and technological progress (Leahy, 2015). Possible solutions regarding project sustainability issues raised above include eliminating information asymmetry through education, focus groups as well as integration into global value chains. This helps to ensure that environment and societal welfare are not compromised by the developmental projects (Sampaio, 2015). Moreover, the BNDES should give preference to short-term loans at an affordable rate. Finally, democratic governance should be applied to-

wards regional integration in order to avoid the process being oriented towards a *single country's foreign policy* (Sampaio, 2015).

### ***Russia's Development and Foreign Affairs Bank –Vnesheconombank (VEB)***

The main function of the VEB is to promote the competitiveness of the Russian economy. This is achieved through the stimulation of economic activity towards infrastructure development, technological innovation, special economic zones, environmental protection, exports support and SMEs development (SELA, 2015). VED also funds foreign investment projects together with the World Bank and other banks in Europe, such as the Investment bank of Europe to fund overseas projects (VEB, 2015a). The bank oversees the implementation of investment projects as well as export promotion through provision of export credits, leasing transactions, insurance and securities and guarantees amongst other offers (SELA, 2015).

Funding for VEB activities is obtained from the Federal Budget, the National Wealth Fund and the Central Bank. Moreover, these activities are governed by the Federal Law on Bank for Development (Act 82-F7 of 2007) (SELA, 2015: 19). The guidelines followed in investment project selection are mostly based on compliance with the bank's standards. The maximum repayment period for projects of more than US\$ 305 million is five years. The minimum accepted share contribution is US\$ 152.5 million (SELA, 2015).

Since 2007, the VEB has provided financing for long-term capital-intensive projects. These projects could not be financed by private commercial banks due to their complex requirements and the incapacities of the private commercial banks to provide sufficient capital. In executing its mandate, the VEB heeded environmental concerns while avoiding unprofitable operations and gave preference to public-private partnerships (VEB, 2015b: 5). From 2010 to 2014 VEB increased support for Russian industrial exports by more than 80 per cent, which is equivalent to 22.7 billion rubles (US\$ 409 million). Guarantees during the same period increased by more than 100 per cent and reached 99.58 billion rubles (US\$ 1.53 billion) (VEB, 2014: 46).

The VEB provides extensive export support to the Independent States of the Commonwealth (CIS countries) Eastern Europe, Asia, Latin America as well as African



states. The export support is concentrated in aircraft manufacturing, nuclear enhanced projects, high-tech exports as well as construction of transport machinery (VEB, 2014: 46). Overall, the VEB has been successful in acquiring assets and funding investment projects abroad in the form of direct investment, hence, making the Russian economy competitive (VEB, 2015a). While the VEB involves funding from private investors, at least 90 per cent of VEB projects are funded from the bank's balances, with most of liabilities in the form of reserve bank deposits. The Russian Central Bank provides both capital and subsidies that are used to finance projects of other entities that the VEB could not meet. In 2013 the Russian government disbursed subsidies worth 76 billion rubbles (US\$ 1.35 billion) (Morozkina, 2015).

A possible role for the NDB to complement VEB's work is to provide investment capital and consultancy to the Russian Central Bank and other development entities. Additionally, the NDB can provide assistance to other governmental entities that deal with sectors that are relatively neglected such as Russian's lagging transport sector (Morozkina, 2015). Moreover, the NDB should collaborate with the Russian public-private sector partnership through joint ventures on developmental projects. The success of the Pulkovo airport project is a good exemplar of such possible partnerships. The Pulkovo airport project is a public-private partnership between the Russian government and the private sector carried out by the Northern Capital Gateway LLC Company (NCG) in 2010. The project involved modernisation of existing airport terminals and construction of new terminal, north boarding gallery and concomitant infrastructure (Morozkina, 2015). The government has ceded operations of the airport to the NCG company through pooling of funds. Of the total project funding, NCG contributed an initial equity capital amounting to almost US\$ 460 million. IFC, together with the European Bank for Reconstruction and Development (EBRD), contributed US\$ 223 million and the VEB, a government owned bank, contributed US\$ 837 million. The NCG comprises of VTB capital, Fraport AG, Koltseva holdings LTD and Horizons Air Investments SA, with equity stakes of 50 per cent, 35.5 per cent, 7.5 per cent and 7 per cent respectively (Morozkina, 2015).

### ***The Indian Export -Import Bank (EXIMINDIA)***

EXIMINDIA is a government-owned entity tasked with aligning the country's foreign trade and direct investments with growth. More specifically, the bank positions India as a manufacturing hub for value added exports and job creation (SELA, 2015: 19). Funding of the bank projects is mostly related to export credit services and guarantees. However, the bank also funds acquisition of capital equipment, and is involved in project consultancy. Between 2014 and 2015, the bank approved loans of US\$ 10.6 billion under various lending arrangements (EXMINDIA, 2015: 15).

The Bank also stands to support direct outward foreign investment through the Indian Project Exporters in the form of funded support and project-related guarantee facilities (EXIMIDIA, 2015:20). Examples of projects supported by EXIMINDIA in 2014 included the construction of a Petroleum refinery plant in Nigeria, the Qatar electricity supply system, and the Saudi Arabia airport construction (EXIMINDIA, 2015: 19).

In addition, the Bank extends credit to foreign entities and development banks. The credit is channelled towards infrastructural equipment imports. In 2014 there were 194 lines of credit commitments valued at US\$ 11.7 billion ready for implementation in 63 countries (EXIMINDIA, 2015: 21). In 2015, 17 lines of credit were granted to 13 African states and Cuba, Vietnam and the Fiji Islands amongst non-African states. They were meant to support electrification projects, rice self-sufficiency programs, fertilizer and cement plant establishments and the upgrading of the sugar refinery industry (EXIMIDIA, 2015: 21). Finally, the Exim Bank acts as a guarantee for local companies in securing credit from international financial institutions. Moreover, the bank facilitates seminars with multilateral organisations for linking business opportunities (EXMINDIA, 2015: 30).

Similar to other IDFs, the Exim Bank has emerged as a strong advocate in promoting trade and investment. The work of the bank is praised as it does not sponsor development projects only in India, but also in other developing nations from Africa and the Middle East. Nevertheless, India still needs to boost an infrastructural gap worth billions of dollars (EXMINDIA, 2015: 31). The NDB and CRA will increase the

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financial base of EXIMINDIA against stringent lending arrangements from private entities.

### ***China Development Bank (CDB)***

The CDB is a state-owned entity with a mandate to provide medium and long-term loans for industry and infrastructure development. The sector also supports development of basic industry and other growing sectors. The CDB also funds grassroots investments and businesses and is involved in the provision of healthcare and education. Finally, the CDB promotes China's outward investments and international business partnerships (CDB, 2015a: 58). In addition, the CDB has established an international network of 707 overseas banks in 106 world markets. The offshore banks serve the purpose of internationalising the Chinese currency as well as improving the banks service capability (CDB, 2015b: 57).

On outward investments and international business partnerships, the CDB has engaged in major cross-border investment in Africa, Asia and the Latin American countries. The acquisition of Peru's La Bambas copper mine for US\$ 7.2 billion by Minmetals represent the largest cross-border acquisition by China until 2015 (SELA, 2015). The Bank also supported the construction of US\$ 473 million coal power plant in Indonesia and US\$ 45 million First Automobile Works (FAW) car assembly plant in South Africa (CDB, 2015b: 58). Finally, the CDB contributes to the formation of the Silk Road Fund through funding from the China-ASEAN bank and the Shanghai Interbank. The Silk Road Fund emanates from the New Silk Road Strategy, which aims at supporting major projects in Eurasian countries, including nuclear related companies and major foreign railway line investments (CDB, 2015b: 57).

The CDB has strengthened its position in international cooperation through supporting various initiatives in structural and socio-economic development projects in Africa, Latin America, Europe and Asia. The principles and objectives of the NDB are partly mirrored in the mandate of the CDB. Through its activities, the CDB had forex loans worth over US\$ 200 billion in 2014, and off-shore balances of US\$ 8.6 billion giving basis for establishment of the CRA which is a capital balance to cushion against liquidity pressures (SELA, 2015: 22).

### ***The Southern Africa Development Bank (DBSA)***

The South African based DBSA was formed with the objective of promoting sustainable development in the socio-economic sectors of agriculture and industry among others. This is made possible through financial and other investment support from the Program for Infrastructural Development in Africa (PIDA), the New Economic Partnership for Africa Development (NEPAD) and the Industrial Development Cooperation (IDC) (DBSA, 2015a: 13).

The primary purpose of DBSA is that of promoting sustainable economic development, institutional capacity building and human resources within the SADC region. By August 2015, DBSA regional project support on investment shortfalls covered all 15 SADC member states and most African nations (Qobo and Soko, 2015). In 2013, the DBSA also expanded its disbursement scope to provide access to infrastructure development solutions across the Southern African Development Committee (SADC) and Sub-Saharan African states (DBSA, 2015b: 41).

In fulfilling its mandate for international financing, the Bank disbursed more than US\$ 300 million in financial products services and products to the region as well as partners in the public and private sectors during the 2013/2014 fiscal year. Total approvals were US\$ 345 million in the same year with a lion's share of investment going towards the energy sector of the Democratic Republic of Congo (DRC), Ghana and Zambia (DBSA, 2015b: 41). Regionally, infrastructure investment for roads construction accounted for the majority of shares at 43 per cent in 2013/2014 followed by the energy sector (21 per cent), the transport sector (19.1 per cent), communications sector (9.3 per cent) and the infrastructure fund comprising of 8.4 per cent (DBSA, 2015b: 42).

Therefore, we can attest that the DBSA is a strong mechanism through regional integration of the African continent. However, these efforts by the DBSA still fall short of meeting the significant infrastructure development demand within the region. In this regard, loans from the NDB will help expand the scope of DBSA disbursements in line with its objectives of broadening their product offering as well as targeting

the expertise of other regional banks and lobbying to co-finance infrastructural projects (DBSA, 2015b: 44).

### **The Structure and Operations of the BRICS New Development Bank**

The NDB has a mandate to provide interest free loans to developing countries principally for sustainable infrastructural development projects in the BRICS economies (BRICS, 2013a, 2015). The main function of the NDB is to utilise resources in support of infrastructural investments in priority projects. This comes in the form of equity participation, guarantees and cheap loans that are approved using a transparent governance system. The initial start-up capital is US\$ 100 billion for all members (BRICS, 2013b). The bank operates within internationally stipulated legal guidelines for all financial institutions. These obligations ensure prudential financial contact and operation as with any other development institutions. Finally, the NDB offers technical assistance in implementing priority projects as well as administration of special funds to support the projects (BRICS, 2014a: paragraph 8).

All the members of NDB have equal voting power, with no provision for a veto. Every country's contribution is consensually determined by the majority (BRICS, 2014b: paragraph 8). However, there is some uncertainty as to membership criteria since any membership expansion must not reduce the BRICS' capital share of 55 per cent so as to not lessen the power of the BRICS member states. The threshold is calculated from the US\$ 100 billion initial capital contribution (Dixon, 2015). For the first five years of operation (2014-2018) the NDB headquarters are located in Shanghai, China. The elected President is from India. The chairmanship is held by Russia and Brazil with special classifications of board of governors and board of directors respectively. Finally, South Africa was chosen as the first regional centre. Rotations will follow in all areas within the stipulated time of five years (BRICS, 2014b: paragraph 12).

### ***Institutional Design of the NDB***

According to Zhu (2015), from a South–South cooperation perspective amongst the BRICS countries (financial support amongst developing countries), five principles

have been prioritised in the NDB mechanism design. The principles are fair governance, market based operation, non-interventionist approach, localisation and constructive supplement. The setup for equal funding responsibilities and discourse power amongst the BRICS demonstrates commitment to substantial international innovative reforms by the BRICS countries.

The NDB shows the principle of fairness in its innovative governance structure. Its stock rights are equally distributed amongst the BRICS membership. This means stock rights are not divided according to the BRICS countries gross domestic product (GDP) in global GDP. A market-based operation model enables the bank to diversify sources of capital by including capital drawn from the market and other channels other than from the BRICS governments. It also enables the introduction of governance structures used in modern companies, and market-based recruitment strategies to attract the best international talent (Zhu, 2015). The non-interventionist approach insists on respecting the rights of BRICS member countries on the choice of their own policy space and development paths. It also safeguards against clauses that allow for intervention in existing BRICS multilateral development banks, which have a negative bearing on the operational efficiency of the NDB (Zhu, 2015). The non-interventionist approach also applies to any country that borrows from the NDB (Zhu, 2015). The localisation principle also involves equal communication and mutual learning through various organisations amongst member states. The Human Sciences Research Council (HSRC) in South Africa has been given a mandate for sharing and communicating experiences across BRICS countries with the aim of achieving organic synthesis of funds and wisdom gathering. Finally, the constructive supplement principle entails cooperation between the existing multilateral financial institutions and the NDB. The spectrum of cooperation here ranges from adopting congruent prudential financial standards to constructive participation in co-financing critical and specific infrastructural projects.

### ***Governance of the NDB and its effect on Established Financial Institutions***

The NDB has been seen as a global alternative to the World Bank Group as an institution primarily controlled by emerging economies (Reisen, 2013). Experiences from

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each of the BRICS countries show that the NDB's provision of development finance can be free from any conditionality. For developing nations discontented with the interventionist approaches of international multi-lateral institutions and regional development banks, growth in South-South cooperation is a welcomed counterbalance to the existing situation (Reisen, 2013). Nevertheless, the absence of coherent alternative development funding initiatives from BRICS' and inadequate resource funding of the NDB may lead to projects negative with environmental, social and economic impacts posing a challenge to the sustainability of potential infrastructure (Schablitzki, 2014).

### ***The NDB and South-South Cooperation***

There has been a decline in support from developed countries and multi-lateral development banks in financing various projects of developing countries (North-South cooperation) (Zhu, 2015). Under these circumstances, the rise of emerging economies and the new international economic system through South-South cooperation (financial support amongst developing countries) forms an important element of the BRICS' cooperation agenda (Zhu, 2015). South-South cooperation focuses on respect, reciprocal treatment, mutual gains, maximum results and joint development as compared to the existing inequalities in the North-South economic relations. Through South-South cooperation, the economic status of developing countries can be uplifted, meaning that they can receive financial, technological, managerial, marketing and other developmental support through a new international economic system based on investment, trade, finance and industrial transfers between emerging economies (Zhu, 2015).

The strategic role of the NDB is to facilitate new financing sources separate from developed nations. It also ushers in new financing fields in infrastructure development, as compared to existing multi-lateral institutions and regional development banks which are largely devoted to multi-lateral development projects with less bearing on infrastructure development. The major projects funded include poverty alleviation and alternative energy methods such as gas and biomass (Driscoll, 1996). The stringent lending conditions emanating from the North-South cooperation contributes

to the politicisation and bureaucratisation of the multi-lateral institutions. South-South cooperation with advent of the NDB prompts a more equal and balanced development partnership amongst developing nations. Reduction in loan costs and lending conditions leads to a sound customer-oriented development finance service (Zhu, 2015).

According to Qobo and Soko (2015), the NDB catalyses structural transformation on the African continent, as well as stimulate regional integration through financing infrastructure projects. The NDB complements efforts by the DBSA and the IDC in leveraging support of BRICS projects. Funding provided by the IDC is in the form of loans, equity and quasi equity. From 2001 to 2010, IDC had funded more than 50 projects in over 15 African states approving loans to the sum total of US\$1.98 billion (Qobo and Soko, 2015).

China and South Africa are the major trade and investment partners of Africa. Their membership in NDB processes and operations means that there is a high likelihood of African countries benefiting from major cross-border investments with proceedings from the NDB disbursements. Moreover, through South-South cooperation Africa will get preferential treatment in loan disbursements to develop its marginalised infrastructure. This will ease the burden on the African Development Bank (ADB), the DBSA and the IDC which are inadequately funded. China is especially uniquely positioned amongst large emerging markets capable of funding significant development finance initiatives like the NDB, with foreign exchange reserves estimated at US\$ 3.8 trillion in December 2014 (Biswas, 2015). Recognising that such initiatives will strengthen its political and economic ties with other developing nations, China, thus, exercise more significant leadership in global development finance (Biswas, 2015).

### **The Structure and Operations of the Contingent Reserve Arrangement**

The CRA protects against short-term balance of payments problems and provides equal support for the stabilisation of the BRICS countries' financial sector (BRICS, 2014c: article 1). The BRICS countries made an initial contribution of US\$ 100 billion towards the CRA establishment. China contributed the largest share of about



US\$ 40 billion, while Brazil, Russia and India contributed equal proportions of US\$ 18 billion respectively. South Africa's contribution was the lowest at US\$ 5 billion (Cattaneo et al., 2015). The participating countries are entitled to own resources committed by them to the CRA unless a member request assistance via a currency swap (BRICS, 2014c: article 2). The maximum access limits to the fund and how much each member country is allowed to borrow is determined by each country's relevant multipliers. This multiplier is determined by each country's capacity to generate income (BRICS, 2014c: article 5). China's multiplier of 0.5 implies that it can only borrow half of its total contribution, while Brazil, Russia and India are allowed to borrow the full sum of its contribution with a multiplier of one and South Africa can request twice its commitment with a multiplier of two. Approval of other members is required for amounts greater than 30 per cent of the reserve (BRICS, 2014c: article 5).

CRA instruments' comprises of liquidity tools and precautionary tools. Both tools are meant to cover short-term balance of payment requirements but with different degrees of response (2014c: article 4). The CRA provides for currency swaps operations when one party requests bailout support. Rates are based on the US dollar with reference to the spot market rate for repurchase calculations. Interest is paid based on the sum total requested by a member and is denominated in USD, rather than the value of the member's currency. The maturity date for repurchase is six-months for un-linked drawings and at least 12 months for IMF linked drawings. Liquid drawings maybe renewed thrice on un-linked drawings and twice on drawings related to the IMF. Precautionary related drawings are non-renewable (BRICS, 2014c: article 12).

The rules and guidelines stipulated in the CRA treaty govern every member. The stipulations include compliance with the banking surveillance system and information disclosure as highlighted in the IMF treaty, as well as proscription of all accruals with other financial institutions for magnified lending (Cattaneo et al., 2015). CRA governance consists of the standing committee and the governing council. The governing council is highest in command and comprises of member representatives from the central bank governance. The council stipulates the adjustments in interest rates, prerequisites and conditions, drawings maturity period and changes to access

limits and multipliers. The council is also allowed to change the scope of the CRA instruments and administer a strong surveillance system (Cattaneo et al., 2015). The Standing Committee which is second in governance level has a mandate to decide on requests by the participating parties. The composition of its officials is made up of representatives from each country's Central Banks. A weighted voting system is used for decision making in support requests. Other important decisions are made by consensus. In all levels of decision making of the standing committee, five per cent of the voting right is distributed equally among the participating countries, while the remaining 95 per cent depends on the committed value to CRA by each participating country.

### ***Lessons for the CRA Operations***

The CRA has been commended on the way it embraces the liberal ideals espoused by the main multi-lateral processes, the ideals of free trade, financial development and financial globalisation. Critics accept the liberal ideas, but argue that the multi-lateral process has been abused by the traditional multi-lateral institutions such that the CRA in its present condition is unlikely to correct (Cattaneo et al., 2015). Unless reforms on expansion and IMF de-linking amongst others are undertaken, the CRA is likely to be ineffective. As Cattaneo et al., (2015) argues, the work of the CRA in its present condition resembles similar agreements made by the ASEAN+3 grouping from the year 2000 to 2010, however ineffective during the 2008 crisis. Membership size, IMF linking and lack of rapid response to balance of payments' difficulties were major problems which affected the Chiang Mai Initiative (CMI). For example, the drawing rights of South Africa to the equivalent of US\$ 10 billion and at least US\$ 2.8 billion unlinked to the IMF is inadequate to meet major balance of payment problems (Cattaneo et al., 2015). Thailand, an economy whose growth was then equivalent to 40 per cent of the present South Africa's growth, experienced the same situation in 1997, when it requested about US\$ 17 billion from IMF. The IMF linking has to be supplemented through a process of counterweighting. While counterweighting is presently possible, it is highly unlikely that nations would consent to the IMF conditionality due to disputes about voting shares, and resentment from past experiences (Cattaneo et al., 2015). In light of these criticisms, the CRA has drawn

positive lessons from ASEAN+3 processes with regard to its institutional design, scope and operations so as to subvert potential problems that other institutions have faced.

### **Conclusions and Recommendations**

The establishment of BRICS development finance institutions provides an important platform for the advancement of the global financial systems reform. These reforms can bring about positive benefits to the developing countries misrepresented in existing multi-lateral institutions' development issues.

The NDB can be a valuable tool for the implementation of regional and global strategies for sustainable development. However, the NDB might face challenges in the short run. For example, decisions regarding capital structure and governance arrangements may have unintended repercussions that could initially restrict the NDB's scale and effectiveness. The BRICS economies have pledged the provision of at least US\$ 150 billion for each partner in the short term, and raising another US\$50 billion over the next six years (Humphrey, 2014). This is a difficult task as most of the BRICS economies are mired in cash constraints arising from various local political and economic problems further agitated by a drastically overstated dollar dominance which can only be addressed if exchange is transacted in local currencies. Projections as reflected in Humphrey (2014) show a likely loan portfolio in the US\$ 40-65 billion range after ten years of operation, which is fairly modest in relation to existing MDBs.

Even though the BRICS as a group are contributing to global growth, sovereign-debt downgrades for some of its member states could result in higher borrowing costs in international markets. Slow growth makes lending to risky infrastructure projects risky. The expected bond rating of the NDB will also most probably restrict its financial flexibility and limit demand for its services for some emerging economies due to potentially high loan costs. Finally, lack of clear leadership as exercised by the founding members on an equal shareholding may hinder expansion and flexibility.

In April 2016, the NDB made progress by issuing the first round of loans to the

BRICS nations for green energy worth US\$ 811 million. Additionally, the Bank planned a five year interbank bond in Chinese Yuan worth US\$ 6.1 trillion, a reflection of Beijing's growing importance to global financial strategic processes. The bond is expected to be launched in the second quarter of 2016. Nevertheless, this also introduces much uncertainty regarding future NDB bond issues. Chinese US\$ 6.1 trillion interbank bond market represent the bank's only viable debt-market funding option at the present moment and China's domestic currency policies regarding the Chinese bond market may affect plans to serve the broader membership. Uncertainties are also present regarding the rate of currency swaps between the Yuan and other BRICS currencies especially after recent downgrade in the Yuan's value. Having said that, the market based rate for currency swaps between the NDB member countries is always a solution to balance of payments and exchange problems between the member countries. Other future areas for NDB development include how the BRICS joined forces on IMF quota formula reform and as well as BRICS finance ministers holding discussions on launch of a bank institute ratings agency..

The recently launched AIIB (Asian Infrastructure Investment Bank) poses a challenge to the NDB given its contrasting governance principles as well as the intensity of Chinese efforts and vigorous leadership in setting an interim secretariat, appointing new staff and intensive lobbying to persuade other countries to join. China being a main player in both institutions could expose the attention given to NDB in the event China face hiccups in her economy in the long run. Presently the work of the NDB and AIIB is not contradictory. Both institutions are involved in the business of infrastructure development and the provision of loans. China has put in effort to assure its member partners that while it may be a Beijing-led initiative, it is not Beijing-owned or controlled. Additionally, its focus for now is heavily Asia-centric, which means the work of the NDB is mostly Africa and Latin America centric.

The NDB will, however, remain influential due to the presence of the CRA function. There are some challenges in some functions of the CRA which need be addressed. The primary emphasis on finding ways to cushion against balance of payment pressure and eliminate the IMF-linked drawings and requirements is difficult to achieve. A transparent surveillance system, research facility and modalities for a rapid crisis response should be developed to bypass competition from existing international fi-

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financial institutions while eliminating possibilities of failure in the long run. Finally, the criteria for CRA membership should be revised to make them more inclusive and expansive.

## Endnotes

1. The CDB, through the Africa Development Bank, approved the creation of a US\$ 5 billion China-Africa Development Fund in 2007. The investment of the funds was targeted at providing capital for Chinese enterprises engaged in development, investment, economic and trade activities in Africa. The fund was also meant to provide support for African countries' agricultural, manufacturing and energy sectors, as well as support for urban infrastructure and the extractive industries. More so, a US\$ 20 billion package was released by China Exim Bank towards Africa's infrastructure refurbishment over three years (Corkin et al., 2008). Taking into account these experiences, the NDB and CRA has adopted positive features from Chinese CDB as well as Latin American financial institutions. Features learnt and implemented include systems on lending, offerings of short-term external finance, as well as balance of payments management to protect against short term liquidity problems (Sampaio, 2015).
2. Mansueto Almeida, is an analyst at Brazil's Institute of Applied Economic research.
3. Vinicius Carrasco, is a Stanford-educated economist at the Pontifical Catholic University in Rio de Janeiro.

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## China's economic hard landing impact on Africa: A scenario analysis

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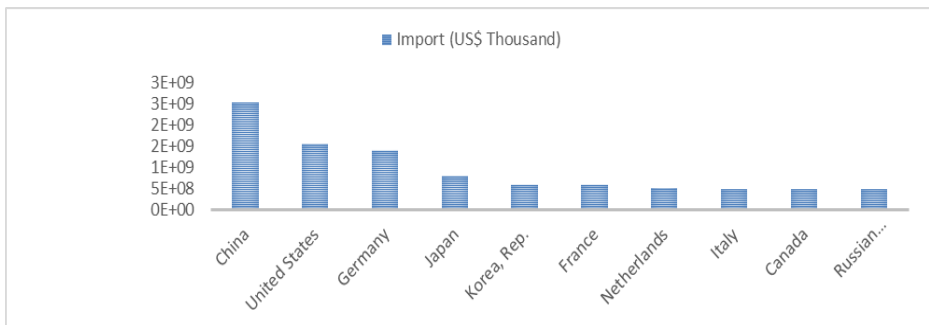
### Abstract

Shocks to aggregate commodity demand from China are having significant impact on global commodities and commodity prices. Fears persist that the economic slowdown in China might be steeper and more chaotic than anticipated and reported, as China rebalances its economy thus impacting on growth prospects across world economies. Using a scenario analysis technique, this study evaluates a risk scenario if economic growth in China falls to 4 per cent rather than the projected 6.5 per cent and its associated impact on African economies. The impact of China's economic slowdown on African economies from an export perspective shows that there is an urgent need for African countries to undertake structural upgrading and diversification of different sectors of the economy with particular emphasis on agriculture in order to mitigate reduced demand from China.

## Introduction

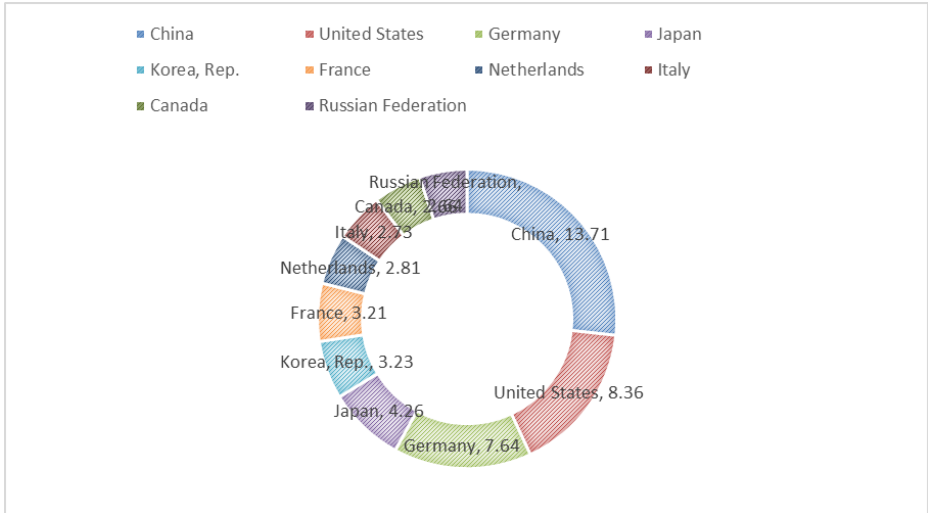
China has within the past two decades emerged as an influential and major player in the global economy. It is the world’s largest exporter of goods, the largest importer of commodities (see Figure 1), the most significant manufacturing economy and the largest trading nation. Clearly, for these reasons, the country plays a primary and significant role in international trade. China is also the second-largest economy by nominal Gross Domestic Product (GDP) and the biggest contributor, in terms of percentage, to global growth. According to the International Monetary Fund (IMF) World Economic Outlook, published in 2016, 43 per cent of the global GDP growth rate from 2009 to 2015 was comprised of Chinese growth, implying that it accounted for almost half of the global growth (IMF, 2016). China’s investment-driven export growth model and its predominant position as the world’s low-cost manufacturing centre drove import demand for commodities, necessary for industrial growth and also helped support global recovery in the aftermath of the 2007-2009 economic crises. Since 2001, China’s impact on the world commodity market has made it a significant driver of global demand, as its percentage of world’s total import rose from 6.5 per cent to 13.7 per cent in 2014 (see Figure 2).

**Figure 1.** Top 10 Global Importers



Source: WITS, 2002

**Figure 2.** Percentage share of global import



Source: WITS, 2016

China's meteoric three-decade economic growth was largely fuelled by capital investment (46 per cent of GDP was composed of gross fixed capital formation), low wages and rapid productivity growth, factors considered unsustainable for long-term sustainable growth. Since 2011, China's economic growth rate has steadily decelerated from 10.6 per cent in 2010 to 6.9 per cent in 2015, its lowest growth rate in 25 years. This is the first time that the Chinese economy has had such a lengthened period of slowdown since it instituted market and economic reforms in 1979 (Lin, 2016).

Certain factors are responsible for the deceleration in China's economic growth. Firstly, growth at double-digit level is unsustainable when a country attains a certain level of GDP and a certain level of GDP per capita.<sup>1</sup> Singapore, Hong Kong, Taiwan and South Korea all experienced deceleration and single-digit growth of 6 to 6.3 per

cent when their GDP per capita reached US\$ 7,000 (Lin, 2016). Thus, China with a GDP of about US\$ 10 trillion and a GDP per capita of almost US\$ 7,000 is expected to experience a similar process of deceleration in its quest to transit to a developed economy. But in order to enable the sustainability of its growth, investments in innovation, research and development (R&D) is required. Moreover, weak recovery in global growth in the aftermath of the 2007-2009 global recession and instability in the economic and financial economy, negatively contributed to a slowdown in international trade growth as global export growth rate fell to 6.1 per cent in 2014 and to -1.8 per cent in 2015 (Lin, 2016). Most economies however, suffered sharper falls in growth relative to China.<sup>2</sup> GDP growth in other emerging economies like Brazil and Russia fell from 7.5 and 4.5 per cent in 2010 to 0.14 and 0.6 per cent in 2014 respectively, and growth in developed economies like South Korea and Singapore fell from 6.1 and 15.2 per cent to 3.3 and 2.9 per cent within the same period (Lin, 2016). The global demand for Chinese goods has been so weak that policy-makers expects little contribution from exports in 2016, hence deciding that domestic demand will be the driver of future growth (Lin, 2016).

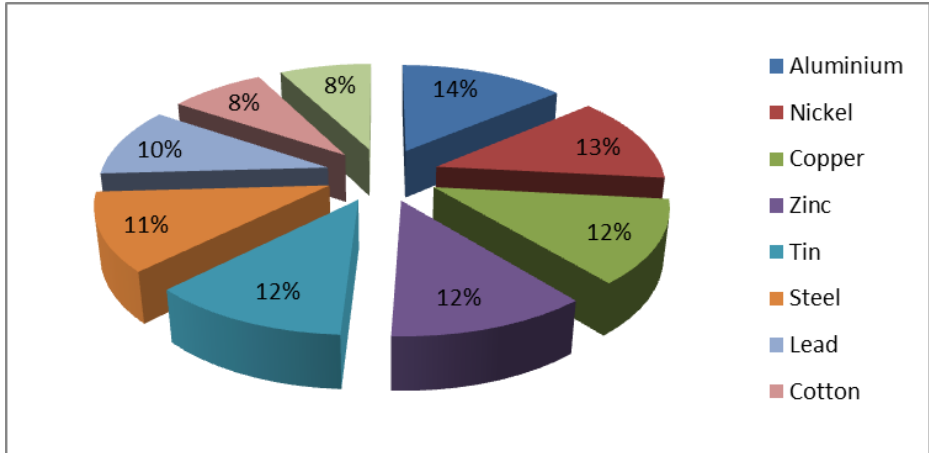
Structural changes in the labour market is the another factor responsible for the economic deceleration. Low wages was the fulcrum of China's economic success which allowed China to undercut (offer goods and services at a lower price than its competitors) firms in developed economies. China's aging population has, however, brought challenges to the Chinese labour market and exemplifies the notion that limits exist to the rate in which labour can contribute to the economy. China's population is getting older at a rapid pace and a government think tank report forecasted 25.9 per cent of the total population will be aged 65 or above in the year 2050 (East Asia Forum, 2013). China's one-child policy which initially created an economic boost is contributing to the falling birth rate, creating a lopsided demography, and a shrinking workforce with the labour market projected to decline by 30 per cent in 2050. The consequence is an increase in average wage cost with the minimum wage rising by 10.37 per cent in 2013 and 11 per cent in 2014. This is rendering Chinese firms to be less competitive in low value, labour-intensive

industries such as the textile, toys and plastic industry and requiring a shift towards an innovation-led economy (Economist, 2012).

The other significant cause of growth deceleration is Beijing's attempt to rein in on China's excessive debt-fuelled investments, which was becoming unsustainable. China is observed to spend more on economic infrastructure annually than North America and Western Europe combined. Chinese investment ratio as a percentage of its GDP stood at over 48 per cent in 2014 (Economist, 2014), as initially, higher investment rates was required by China in its attempt to bridge infrastructural gaps, needed to spur economic growth. With China's rapid rate of economic growth triggering one of the greatest rural to urban migrations in history, the promise of better wages and higher standards of living lured rural workers into the cities. In 2012, it was estimated that since 1980, over 145 million people had migrated from the country side to China's cities in search of a better life. This in turn led to an increased demand for housing and urban infrastructure, triggering a construction boom of tremendous proportions that saw China's construction sector account for around half of the global demand for industrial metals and become the largest importer of crude oil (IMFdirect, 2015). Recent investment and stimulus programmes such as easing credit restrictions, expanding social welfare and infrastructural spending programmes undertaken in the wake of the 2008 recession have been less productive due to the infrastructural gap been filled. Chinese economic and financial analysts contend that if China were to continue investing at a globally unprecedented rate of 48 per cent of national income - greater than even Japan at its 1980s peak-and accumulating debts at an annual rate of more than 15 per cent of GDP, China is at serious risk of a calamitous Japanese crash á la 1990. An IMF 2015 report estimated that China may have been overinvesting in recent years by around 15 per cent of its GDP, with the cost falling directly on the shoulders of households. China's excessive investment now tends to channel scarce resources to commercially unviable sectors and away from household consumers leading to waste and creating asset bubbles. The Chinese government is now attempting to regulate investments so as to avoid slumps in key sectors of the economy.



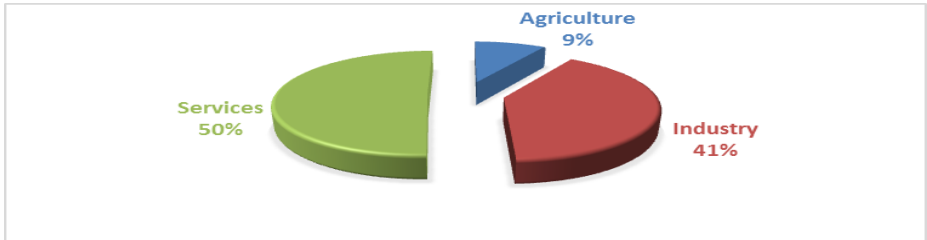
**Figure 3.** China’s share of global commodity consumption



Source: UNCTAD, 2016

To economists, China’s structural deceleration is inevitable. It signals the change in China’s growth model caused by narrowing the technological gap with developed economies thus necessitating a shift into the service sector. With China accounting for approximately 17 per cent of global economic activities (BBC, 2015) (see Figure 3), a percentage fall in Chinese growth will result in a 0.5 percentage fall in global growth (Independent, 2015). This can lead to a significant multiplier effect on the global economy by disrupting global trade and hindering growth, especially in emerging and developing economies. China’s “new normal” consumer-driven economic model looks inwards for growth, placing strong emphasis on promoting consumer demand, addressing income disparity and boosting energy efficiency. While China’s economic rebalancing remains on course despite internal and external structural constraints, its 2015 growth rate of 6.8 per cent was observed to be primarily driven by its service sector, which exceeded the primary and secondary sector, growing at 11.7 per cent in 2015 and contributing 50.5 per cent of total GDP (See Figure 4).

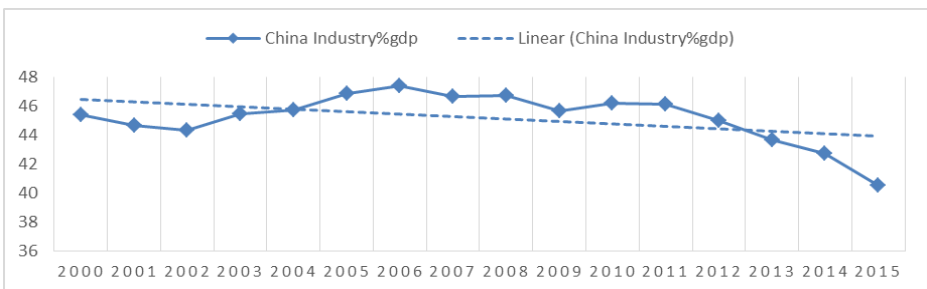
**Figure 4.** China GDP composition by sector



Source: Statistica, 2016

China's recent growth has been powered by stronger domestic consumption and this has helped it compensate for the fall in net export. The deceleration is set to continue as its economy transits, and will be stabilised by stronger service and consumer growth. China's deceleration is preceded by the economy becoming less import-intensive and the tertiary industry structurally exceeding the industrial sector as its competitiveness improves and it moves up the global value chain (see Figure 5). While its deceleration is concentrated more in the industrial sector, its service sector has shown increased growth, but since its service sector is relatively closed and has less dependence on imports, growth in the service sector is unlikely to negate the adverse impact on global commodity trade.

**Figure 5.** China industry share as a percentage of GDP



Source: World Bank, 2016

Relative to the background literature, a vital question centres on the degree of adjustment of the Chinese economy towards a more sustainable growth path, as well as China's rebalancing to a consumer-driven economy, and the impact on commodity trade. The impending crash of the Chinese economy has recently been a common discourse in the global media. The rationale for such prognosis is centred on the persistent slowdown in China's growth since 2011. Reasons ascribed for the deceleration include internal structural defects such as China's unsustainable investment rate, corruption and inefficient state-owned enterprises, aging and changes in the labour market as well as its turbulent stock market. Since these structural defects are difficult to resolve, optimism for China's growth is slim.

As China is a significant participant in the global commodity market, a strong correlation exists between China's economic growth and a rise in commodity prices triggered by the commodity boom. Within the last two decades, as China's growth accelerated, there has been a sharp rise in prices of commodities and since China's subsequent deceleration in 2011, there has been a 70 per cent fall in energy prices, a 50 per cent fall in metal prices and a 35 per cent fall in agricultural commodity prices (World Bank Commodity Outlook, 2015). China's deceleration is a cause for serious concern, especially among commodity trade partners to China though non-commodity exporters or economies with little direct trade relations with China might also feel the impact of China's hard-landing if they are suppliers to countries that sell directly to China, or if they export commodities whose prices in international markets are affected by weakened demand from China. The impact of this transition will vary as exporters of commodities tend to be more affected than exporters of manufactured goods (IMF, 2016), and as resource-rich developing countries derive their income mostly from commodity export, they tend to be more exposed to China's economic policies.

Against this background, this study renders two contributions to substantive literature on global commodity trade. First, it applies a scenario analysis technique to a wide range of commodities, and secondly, it isolates the impact of global commodity demand and price to China as Yu (2011) ascribed growth in global demand to China's industrialisation and urbanisation process. Our objective is to augment and en-

hance our understanding of China's impact on commodity markets and its associated effect on African economies. Having an understanding of the degree of Chinese impact on commodity trade is important for certain reasons. First, it will enable commodity producers to better assess the degree of risk on commodity prices, based on their evaluation of economic prospects in China. Secondly, it can also improve policy-makers understanding of drivers of commodity price change. This paper is exploratory in nature; its scope and the depth of its analysis are constrained by the availability of data. To achieve our objective, the paper is structured as follows: After the introduction, the next paragraph provides an overview of China-Africa commodity relations and the third paragraph specifies the methodology and analysis undertaken. The final paragraphs present the conclusion and recommendations.

### **China-Africa commodity relations**

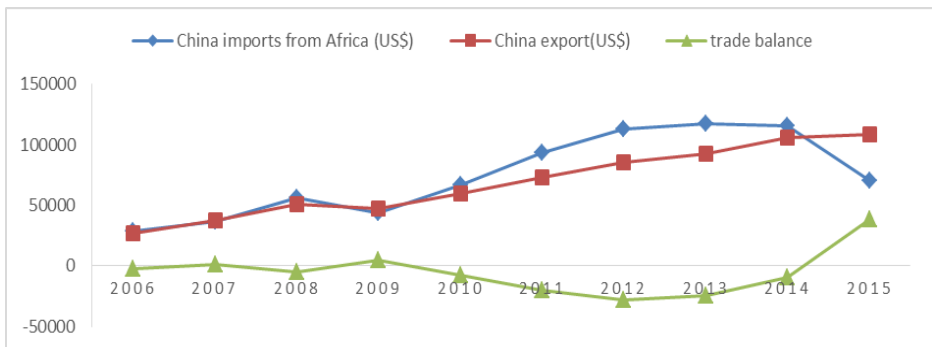
In a study of 135 countries, United Nations (UN) economists found that two out of three developing countries are commodity-dependent, and that half of them are African nations (UN, 2015). Energy fuels (coal, petroleum and gas) accounts for more than 90 per cent of the export earnings for Nigeria, Algeria, Libya, and Equatorial Guinea. Various metals and ores make up 80 per cent of Botswana (diamonds, copper, nickel, gold), the Republic of Congo (petroleum), the Democratic Republic of Congo (DRC) (diamonds, cobalt, copper), Gabon (petroleum, manganese), Guinea (bauxite, aluminium, gold, diamonds), Sierra Leone (diamonds) and Sudan's (petroleum, gold) export. Minerals and mineral fuels account further for more than 50 per cent of export earnings of Mali (gold), Mauritania (iron ore), Mozambique (aluminium), Namibia (diamonds, uranium, gold, zinc) and Zambia (copper, cobalt). Agricultural commodities form 70 per cent of Benin's exports; cotton embodies 50 per cent for Burkina Faso's exports; coffee, sugar and tea make up 60 per cent of Burundi's exports; peanuts, fish and cotton comprises 70 per cent of Gambia's exports; cashews, shrimps, peanuts and oil palm constitute 80 per cent of Guinea Bissau; tobacco makes up more than 53 per cent of Malawi's exports; while cocoa constitutes 80 per cent of Sao Tome and Principe's exports (UN Comtrade, 2014). China's trade relations with Africa are important to both trading partners as Africa serves as an important source of raw materials for China - helping power China's

rapid economic growth, while China serves as an important investor for Africa that makes available cheap consumer goods, buys its natural resources, as well as provides developmental aid and infrastructural loans. Though Africa constitutes just five per cent of China's global trade, bi-lateral trade between both partners grew at a 30 per cent compounded annual growth rate from US\$ 10.8 billion in 2001 to US\$ 200 billion in 2015 (see Figure 6). Through a rise in commodity prices fuelled by strong commodity demands from emerging economies especially China, Sub-Saharan economies have grown at an average of five per cent over the past decade helping improve living standards and strengthening human development indicators across the continent. Two-way trade between both partners constitute a quarter of Africa's total trade, and a third of China's total energy imports are sourced from Africa. In 2009, China became Africa's largest trade partner as economies in Africa rode on China's growth wave, although benefits accrued were differentiated by their trade position, their degree of comparative advantage and their level of export exposure to China. While two-way trade has experienced an upward trajectory, its trade composition replicates traditional north-south pattern where Sub Saharan Africa largely exports raw materials and import manufactured products. More than 80 per cent of China's imports from Africa are composed of mineral resources, while agricultural commodities imports have remained low.

For economists and researchers engaged in issues relating to African economic growth and development, a persistent question being discussed, is the impact of China's slowdown on Africa's economies (see Taylor, 2014; Drummond and Liu, 2013; Balioune-Lutz, 2011 amongst others). While China needed natural resources and agricultural resources to enhance its growth, Africa as a resource-rich continent helped supply its commodity needs, and bi-lateral trade relations has enabled African economies experience higher growth rates, favourable trade terms, higher export volume and higher commodity income (Zafar, 2007). China's economic transition has led to a slowdown in global economic growth as investments and importation of commodities has declined. Africa's exports to China fell by two per cent in 2014 and 39.1 per cent in 2015, after having enjoyed positive export growth in the preceding years. Its 39.1 per cent fall in export to China was sharper than imports from the rest

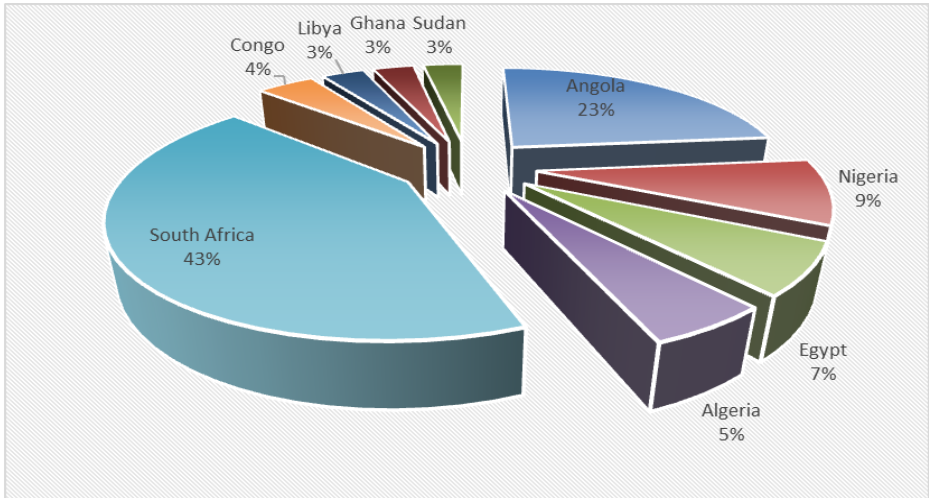
of the world to China which fell 14 per cent. This shows that Africa is impacted more, relative to other continents in its trade relations with China. Among its trade partners (see Figure 7), those with larger trade ratios experienced a significant drop in export volume to China (see Figure 8). Mozambique, a major exporter of aluminium suffered a 73 per cent drop in its exports to China. Angola, another oil producer, saw exports drop 49 per cent, while South Africa and Egypt lost 32 and 21 per cent respectively in export volume. However, some economies saw a rise in their export volume to China such as Gambia, a major exporter of groundnuts which experienced a 47 per cent rise in its export, also Mauritius, Kenya, Togo and Morocco saw growth in their export volumes. Cumulatively, some commodities experienced drops in export volumes such as Africa's crude oil export to China which fell by five per cent in 2013 and a further 48 per cent in 2015, also iron ore import to China from Africa dropped by two per cent in 2013 and further by 51 per cent in 2015. Some commodities saw gains in export volumes such as livestock which rose by 43.68 per cent from 2012 to 2013 and rose by 22 per cent in 2015, frozen fruits rose by 40 per cent in 2015 and sawn wood by 7.7 per cent in 2015. Reasons for these gains include stable global demand as well as the price elastic nature of such commodities, which are necessities.

**Figure 6. China Africa trade relations**



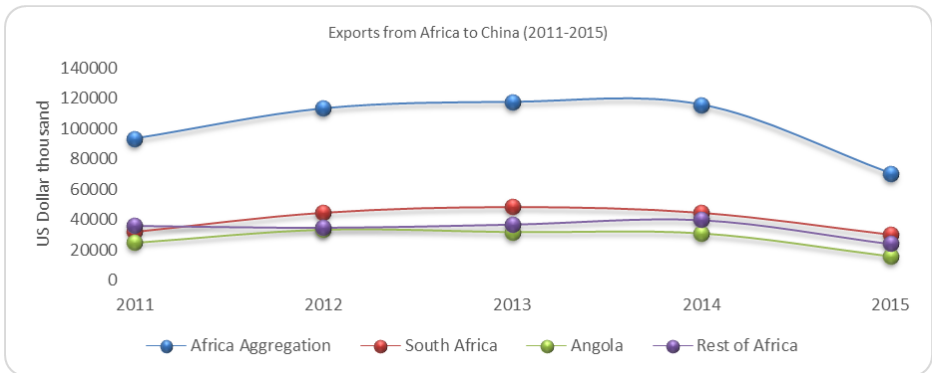
Source: Tralac, 2016

**Figure 7.** China’s top African trading partners



Source: Tralac, 2016

**Figure 8.** Africa’s commodity exports to China (2011-2015)



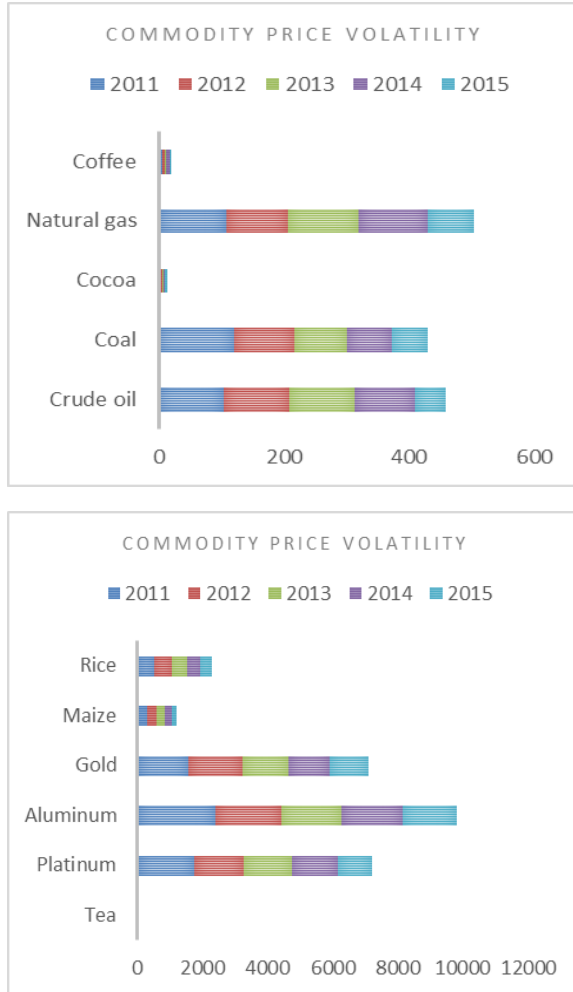
Source: Trade map, 2016

### **Hard or soft landing?**

Strong volatility in commodity demand and price motivated our analysis of the possible effect on Africa of a risk scenario in which China would grow below the baseline scenario, assumed to be 6.5 per cent till 2020. Our study addresses this scenario by evaluating the possible transmission channels of a sharper slowdown in China on African economies. Despite Beijing's assertion that growth will continue at an annual rate of 6.5 per cent, it is imperative to explore the impact of a sharper, steeper slowdown in Chinese growth, which will lead us to significantly lower growth levels. The basis for such a hard-landing low growth scenario can be viewed from a position of meagre progress in structural transformation, as it transits from an investment-driven to a service-based economy. From this perspective, if doubts exist over the characteristic of investment opportunities, industrial upgrading, as well as accumulated public debts, this will create opportunities for structural problems such as inefficient state ownership and huge debt leverage which has the potential to stifle growth in the next few years. While Chinese authorities will certainly intensify actions to stimulate consumer demand, it might still be unable to compensate for an already contracted and dwindled private sector. Therefore, despite fiscal and monetary stimulus policies to stimulate growth, the economy will be running below its capacity. Concurrently, stimulus packages will impact forcefully on the yuan making it depreciate in value, thus helping stoke inflationary tendencies. This will create a scenario of persistent stagnation with growth rates outlook heading to less than four or four per cent rather than the projected 6.5 per cent and industrial production growing below four per cent rather than the anticipated baseline scenario of seven per cent. It is imperative to understand that this scenario has a small, but ascertainable probability of occurring, especially given that current baseline economic forecasts for China already takes into consideration a soft landing deceleration in growth. Even without taking our risk scenario into deliberation, the baseline scenario will still have significant effect on economies with close trade relations to China, African countries inclusive. Applying a scenario analysis approach, this study seeks to evaluate China's deceleration impact on commodity markets and how it can impact on African countries.



**Figure 9-10.** Global commodity price volatility



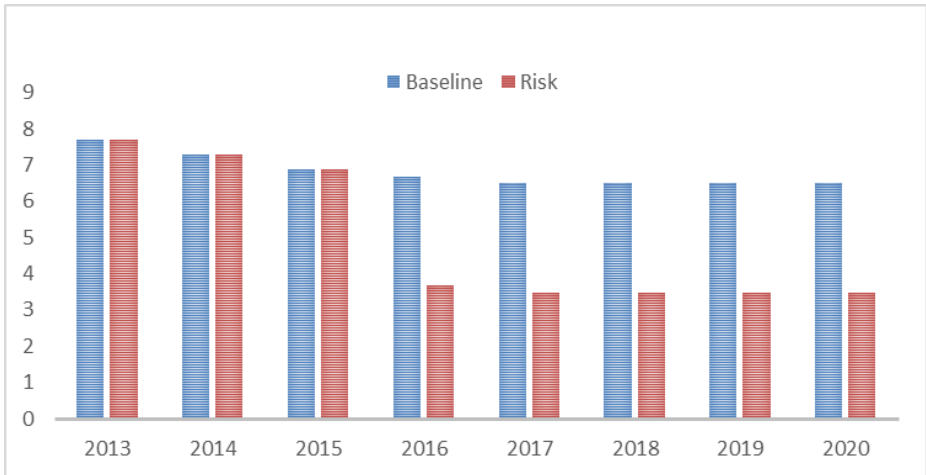
Source: UNCTAD, 2016

## Methodology and analysis

To analyse China's hard landing impact on the African economy, we apply a scenario analysis technique (see von Reibnitz, 1988; Wack, 1985).<sup>3</sup> This approach is often employed to estimate changes to a portfolio's value in response to an unfavourable event, and may be used to examine a theoretical worst-case scenario analysis. Based on mathematical and statistical principles, scenario analysis provides a process to estimate shifts in the value of a commodity, based on the occurrence of different situations, referred to as scenarios, following the principles of "what if" analysis. These assessments can be used to examine the amount of risk present within a given economic cycle as related to a variety of potential events, ranging from highly probable to highly improbable. Depending on the results of the analysis, it can be determined if the level of risk present falls within a threshold comfort zone. This study applies economic growth data from the Global Economic prospect, retrieved from the World Bank and analyses two scenarios (a baseline and a risk "adverse" scenario) for the next 5 years, assuming a static balance. This allows for comparability in commodity demand as the risk scenario would assume Chinese economic growth of four per cent till 2021, and the baseline scenario would assume growth of 6.5 per cent till 2021. Assessing our channels, we will assess the impact of our risk scenario on African economies, based on the notion that China is Africa's largest trading partner and commodity importer (UNCTAD, 2016). It will also be based on the fact that Africa dependence on China is not restricted to commodity export alone, but also on China's influence on Africa's commodity prices. Thus, trade dependence will be significant, based on their weight and percentage export to China as this plays a significant role in determining their revenues. Also the impact of the prices of the commodities will to a greater extent depend on the demand for each type of commodity, which is based on investment in China. (Figures 11 to 18 show the price elasticity of the commodities relative to a drop in demand from China, as well as the impact based on our baseline forecast scenario). The results would enable us to evaluate African economies' ability to weather Chinese commodity shocks as well as identify areas for improvement to mitigate the potential impact of the shock. This study ap-

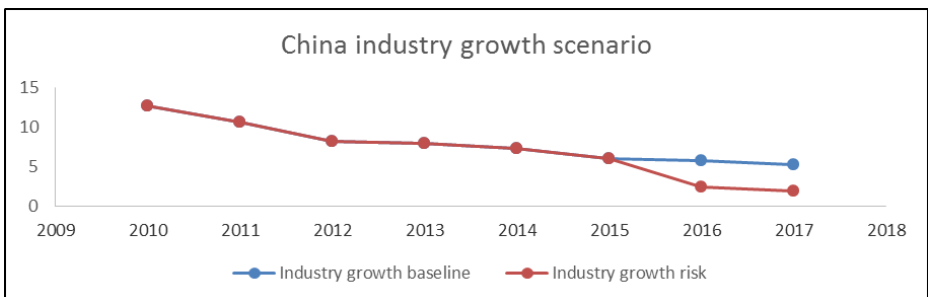
proach improves fiscal discipline as it shows how current account balance would be affected in a risk and baseline scenario.

**Figure 11.** Scenario GDP growth estimation for China



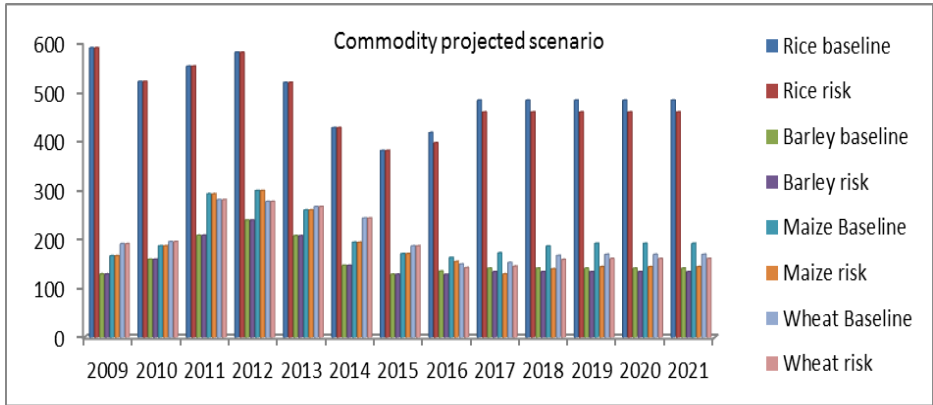
Source: Authors’ own computation

**Figure 12.** Scenario industry growth estimation for China



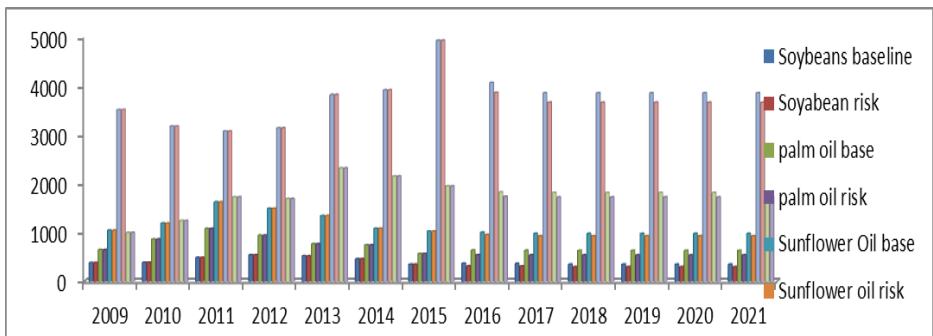
Source: Authors’ own computation

**Figure 13.** Agricultural commodity scenario analysis



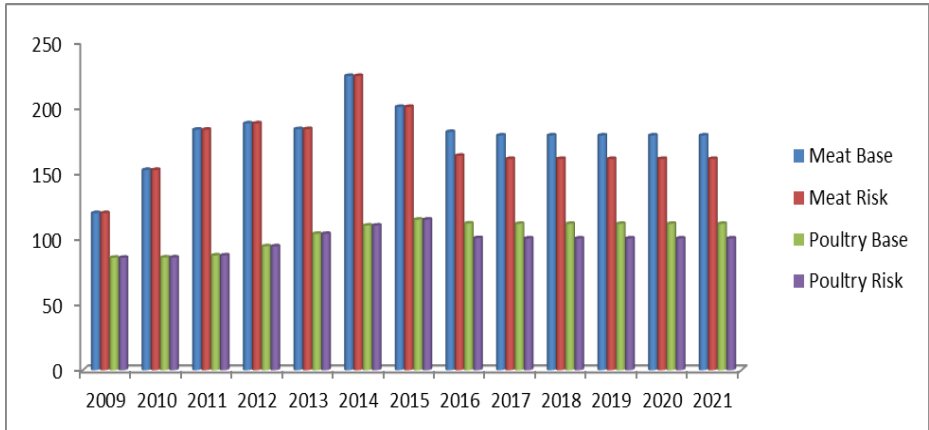
Source: Authors' own computation

**Figure 14.** Agricultural commodity scenario analysis



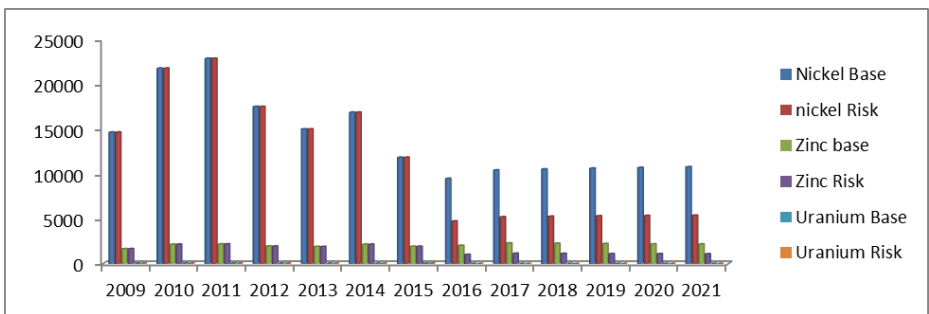
Source: Authors' own computation

**Figure 15. Agricultural commodity scenario analysis**



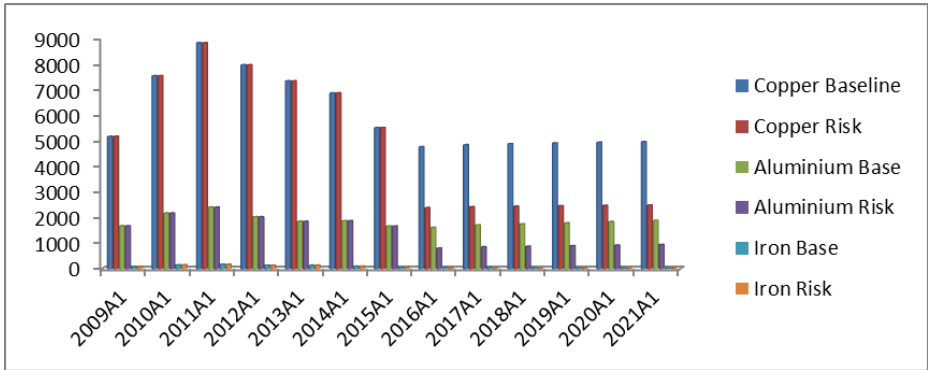
Source: Authors’ own computation

**Figure 16. Minerals commodity scenario analysis**



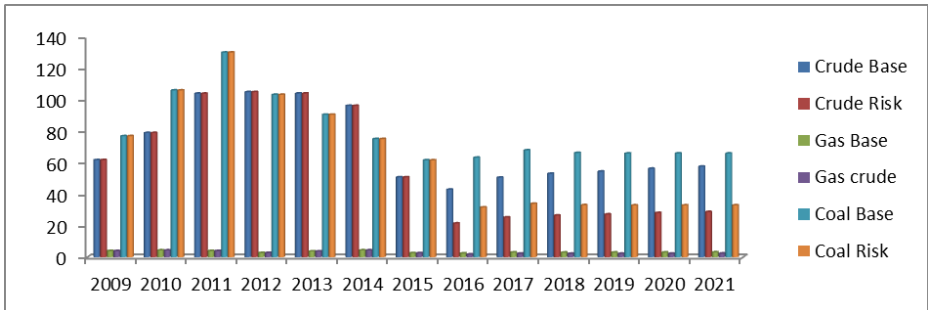
Source: Authors’ own computation

**Figure 17.** Minerals commodity scenario analysis



Source: Authors' own computation

**Figure 18.** Minerals commodity scenario analysis



Source: Authors' own computation

## Findings

The conventional belief is that as long as China's economy grows on average at 6.5 per cent or more annually, it will need to continue its reliance on Africa for resource commodities - the bulk of the US\$ 200 billion trade. Correspondingly, this will enable Africa's economy to continue its annual average growth of 4.5 per cent. Thus,

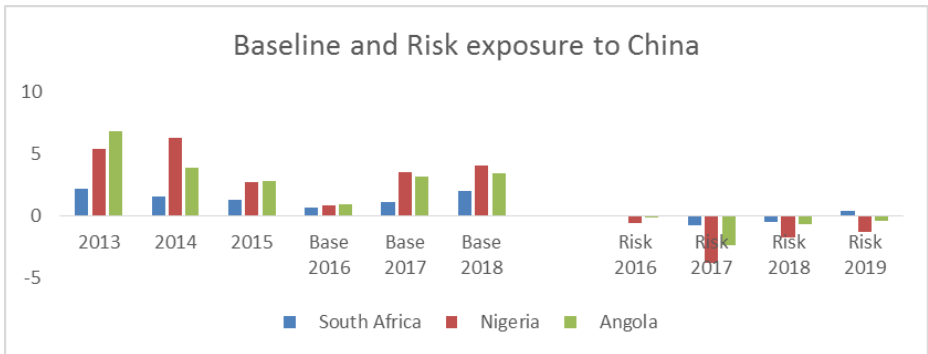
Africa broadly cannot blossom without China and as countries like South Africa, Namibia and Chad increase demographically in size, a thriving trade with China will enable the possibility of reaping economic dividends for Africa. Shocks in Chinese growth are expected to hit African economies hard especially via lower demand in commodities and drops in commodity prices.

From the analysis, there exists a strong negative impact of the risk scenario on the prices of metals and ores due to a drop in industrial demand. Also, prices of energy commodities were observed to plunge, especially oil at a steeper rate than ores and metals. This may be due to China's attempt to use green energy technology as it tries to curb its environmental issues as well as excess supply relative to demand by oil exporters. However, food commodities were noted to suffer fewer shocks. Generally, prices of agricultural commodities are observed to be less sensitive to cyclical conditions than minerals (see Figures 9 and 10), as their demand are more predictable (McFarlane, 2014; Roberts and Schlenker, 2009). A reason for this might be because prices of agricultural commodities tend to be determined by productivity gains and weather-related supply shocks. Another reason might be their close linkages with consumption. As agricultural commodities are known to be less volatile in world markets, China's deceleration has had less noticeable impact on price trends of agricultural commodities. Thus, agricultural commodity exporters will be less affected by China's hard landing. For mineral commodities, in the short run, exporters will be hit hard, but in the medium term, prices are expected to rise, due to increased demand from other emerging economies.

Our risk scenario of China's transition and deceleration will have significant and substantial impact on Africa, which will be ameliorated by certain countries, which are observed to be more diversified and less mineral dependent. An economic hard landing in China will indicate a danger to African economic growth as non-agricultural commodity exporting countries are observed to be more vulnerable (see Figure 19). Faced with this kind of scenario, commodity exporting countries need to adopt counter-cyclical economic policies to avoid recession and stagnant growth. Our simulation exercise shows that economies like Kenya and Ethiopia can absorb shocks from China relatively better (see Figure 20) due to diversity in their commod-

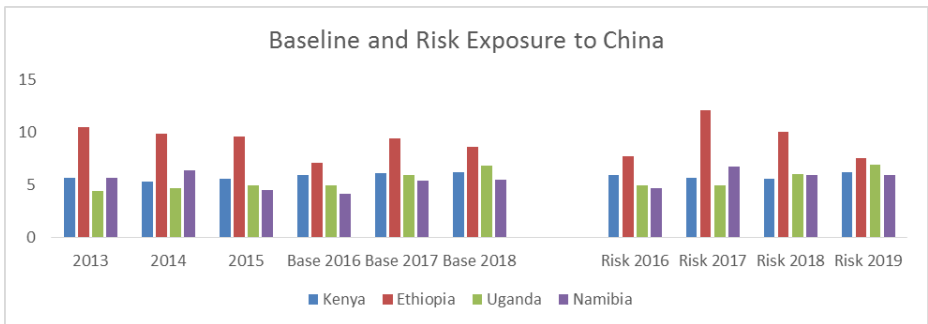
ity export baskets and countries like Namibia and Lesotho due to lower trade links. This underscores the importance of counter cyclical policies to soften the impact of China’s slowdown.

**Figure 19.** Commodity scenario analysis on selected African economies



Source: Authors’ own computation

**Figure 20.** Commodity scenario analysis on selected African economies



Source: Authors’ own computation



Agricultural commodity export to China is very low representing just five per cent of Africa's total exports to China, despite a rise in trade relations. Africa is not fully exploiting its comparative advantage in agriculture to expand its export share in the Chinese and global markets despite agricultural commodities being observed to be less volatile, relative to minerals and irrespective of the scenario approach applied. Its agricultural potential is massive relative to its current output. With more than a quarter of global arable land residing in Africa, it lags behind other continents, producing less than ten per cent of the world's output (FAO, 2015). The Balassa index on global competitiveness has consistently stated that Africa has been losing global competitiveness in all sectors, especially its agricultural export competitiveness which has fallen over the years (World Economic Forum, 2016). Factors declared responsible include structural deficiencies; real exchange rate depreciation; lack of capital investment and logistical constraints as well as high agricultural product import tariff which tends to hinder export. Also African economies like most commodity producers are often participants in commodity markets in which they exercise little or no control on commodity prices and quantity. These are controlled by elaborate financial market systems and western firms. This makes them susceptible to commodity super cycles of booms, bubbles and busts with the associated painful adjustment process from depressed prices. China's position in commodity trade is significant in the manner it impacts on the demand and supply of commodities globally, for instance, its policy of self-reliance and sustainability in grain production and reliance on oil seed importation impacts globally on agricultural commodity patterns, as certain commodities tend to be more volatile in prices and demand. However, China tends to have a more assertive position in mineral commodities relative to agricultural commodities due to its position as the largest importer of mineral commodities, though its percentage of agricultural commodity imports are observed to be increasingly gradually. Agricultural commodity exporters will have small direct exposure relative to mineral commodity exporters if it slows to four per cent, though the economic impact on Africa will be larger and broader even on diversified economies through currency depreciation, fiscal balance deterioration and trade balance deterioration.

## Conclusion

Most African countries will be directly impacted by China's hard landing as China accounts for approximately a third of Africa's commodity exports. This is exclusive of other linkages such as capital flows, trade flows, aids, loans and exchange rate among others. The effect of China's deceleration on non-commodity exporting countries and countries with less economic exposure to China will be marginal, though lower commodity prices might indirectly impact on their public finances due to China's influence on global commodity prices. Other channels for non-commodity countries include the spreading of a currency war. If China depreciates its yuan in its attempt to drive exports and more importantly, weaken confidence, which has a huge impact on the global economy, as observed in 2008 where weakened confidence brought down companies, banks, markets and financial systems in non-commodity economies and countries. African commodity exporters to China in the short run will be exposed to withering recession or stagnation as recently experienced by Nigeria or might have to borrow to narrow their current account deficit. African economies, such as Ghana, Rwanda, Burkina Faso and Ethiopia that initiated early actions such as the Comprehensive African Agricultural Development Plan (CAADP) and the regional agricultural development and food security initiatives within the last decade to invest in agriculture will experience higher and more stable economic growth with a decline in their malnutrition and poverty rates. With agriculture as the surest path to sustainable economic growth due to its tendency to have multiplier impacts on other sectors of the economy and with agricultural growth a more effective tool at reducing poverty relative to other sectors in Africa due to the higher percentage (approximating 60 per cent of labour force) engaged in agriculture, African policy-makers need to allocate a greater percentage of their national budget to agriculture transformation initiatives such as improved seed and availability of fertilizer; easy access to finance; irrigation; undertake land reforms as well as combat climate-related phenomena such as drought and flooding. Africa's progress will require the implementation of correct policies, technology transfer and most importantly, political will power to enable it to achieve results similar to the Asian green revolution of the mid-1990s. The result of the simulation exercise shows that certain countries

such as Ethiopia, Kenya, Djibouti, Liberia, Namibia and Rwanda can withstand shocks associated with China’s hard landing better, as well as Burkina Faso, Mauritius, Swaziland and Lesotho. The former due to lower commodity trade links with China, and the latter, by having fiscal space to absorb commodity shocks through a more diversified economy. While little doubt exists that China’s slowdown matters, especially in the short run, a hard landing will have profound impact on African economies as it will have significant effects on commodity exporters and non-commodity exporters will not be immune.

**Figure 21.** World Bank global growth outlook



Source: WITS, 2016

However, China’s transitory economic outlook does not spell disaster for commodity exporters in the medium to long-term based on the World Bank’s growth forecast (see Figure 21). On the contrary, even if, as many fear, China’s economic growth slows further; its impact on commodity prices will be limited due to projected demand from other emerging economies. Bolstering prospects for commodity prices further are indications that demand from other emerging giants, such as India, Mexico, Turkey, Vietnam and Indonesia will accelerate in the coming years. The rest of developing Asia’s economy is currently about four per cent larger than China’s, and twice as large as China’s economy was in 2000, when growth in commodity demand

began to accelerate. If solid growth in Asia's other emerging economies continues over the next decade and a half, it will generate commodity demand at least as large as China's in the boom years. This implies that if China's economy decelerates, in the short run commodity demand will fall but as it moves more into service, its demand for resources will be less, making other countries like India, Turkey, Mexico increase demand. In the long run, commodity prices will recover but remain stable, not rising as sharply as in 2010-2014 levels due to less demand from China.

### **Recommendation**

If "*what happens in China does not stay in China*" is a qualitative sense, then Chinese growth matters. But quantitatively, how great would the fallout be from a severe China slowdown? As growth deceleration in China go hand-in-hand with the fall in commodity prices, changes in China's economic structure present challenges and opportunities for African economies. If China's growth falls to four per cent or less in the short run, mineral commodity producers will be severely affected, relative to agricultural commodity producers. Some African economies will fall into recession, as fewer countries can cushion the flow of reduced demand. Most economies will struggle to initiate effective monetary policy response and this might lead to huge capital outflows, currency depreciation and inflationary pressures. Drops in commodity prices will lead to a fall in development prospects, due to costly capital needed to finance development projects. However, a fall in commodity price can aid and contribute to the structural rebalancing within Africa, as commodity exporters will be forced to engage in agriculture, the base for structural transformation. Agricultural commodities are observed to be less volatile relative to mineral commodities and have stronger linkages to other sectors of the economy. Structural changes should target technological innovation and industrial upgrading to raise labour productivity with policy-makers undertaking a facilitating role. The most effective long-term strategy for export-dependent economies is to adopt export diversification policies. Structural reforms should be undertaken to encourage export diversification and upgrading. Diversification processes should be vertical (expanding production into upstream and downstream sectors of the value chain) and horizontal (developing and expanding of new products). This will reduce concentration and reliance on a

few export commodities and reduce their vulnerability to exogenous shocks. In the short to medium run, contractionary revenue management is the most feasible approach to stabilizing income from commodity sale. African policy-makers in commodity exporting countries will need to ensure the current commodity income earned is either largely saved—such as in the case of Chile or Norway—or like Botswana, used in ways that supports future growth in non-commodity sectors, for example, through investment in education, health, and infrastructure. Fiscal transparency should help to ensure that effective development initiatives are made from any additional revenues. Governments, however, must anticipate future decline in commodity prices and ensure that spending does not increase above sustainable levels in hard-to-reverse areas such as public sector wages. Also, governments of both exporting and importing commodity countries should approach the volatility in commodity prices from a “risk management” perspective and incorporate market information about prices and volatility into their fiscal planning and budgetary process. More broadly, governments in commodity-exporting countries should continue to aim at diversifying their economies to help reduce vulnerabilities to commodity price shocks.

## Endnotes

1. Per capita GDP is a measure of the total output of a country that takes GDP and divides it by the number of people in the country
2. “Hard landing” is a scenario in which an economy has a sharp decline after years of significant growth. In contrast, “soft landing” is a steady decline in growth rate.
3. Scenario analysis is the process of estimating the expected value of a portfolio or commodity after a given period of time, assuming specific changes or key factors take place.

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