GEOPOLITICS AND REGIONAL INTEGRATION

China's impact on the political economy of Africa in the 21st century

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Photography: "You're fortunate", Derrick Ofosu Boateng

One of the most substantial changes in Africa's political economy in the last two decades has undoubtedly been the increase of Chinese presence on the continent. This makes itself apparent at different levels: trade, investment, credits, technology transfer and also migration. This intensification runs parallel to China's spectacular economic growth, which has led to an increased presence in global markets, but it is also related to the deployment of public policies by the Beijing government, as well as the increased agency of many African governments, which see an opportunity to diversify their international economic and strategic alliances.

Of course, these changes are not without tensions in the international arena. The intensity of the mutation is such that the traditional economic partners of African countries, Europe and the US, see their pre-eminent position in defining public policy towards the continent threatened. Some see these changes as a new form of imperialism, where the Chinese authorities offer loans and infrastructure in exchange for oil, minerals and agricultural land to sustain the growth of the Asian giant. In this line, it is even argued that China uses its financial injections into African countries as a device for trapping them in a spiral of debt in order to end up dominating them (debt-trap diplomacy). The growing Chinese presence is also seen as an opportunity to break the Western quasi-monopoly of ideas, strategies and investments in the continent. From this point of view, the Chinese development model is seen as an alternative to the dominance of the neoliberal strategies of the last three or four decades, which have contributed so little in terms of poverty reduction and structural transformation.

In this paper we provide an overview of these debates, focusing on the case of Ethiopia as an example of an African country where China has a notable presence, and on two initiatives that will shape the African and global political economy in the coming decade: the Belt and Road Initiative and the African Continental Free Trade Area.

From Zhen He to Zhou Enlai and the FOCAC

Although the current Chinese presence in Africa is the most intense of all times, and has a relevant significance in the contemporary context of globalisation and post-globalisation in which it has been consolidated, it is far from being a new phenomenon. The expeditions of the Chinese explorer and diplomat Zheng He to the West African coast at the turn of the 15th century are well known, in spite of their limited impact. In the 20th century, the advent of the People's Republic in 1949 brought about a very different approach. Under Premier Zhou Enlai, China devoted diplomatic efforts to forging ideological and strategic alliances with several African countries with socialist-oriented governments such as Ghana, Tanzania and Zambia. The construction of a railway line between Zambia and Tanzania between 1970 and 1976 with Chinese financing and technology, the so-called TAZARA, is still remembered as one of the major milestones of China-Africa cooperation in the Cold War era. These economic efforts and the promotion of a shared space in the international arena in the early days of the People's Republic led to recognition by the United Nations at the expense of Taiwan in 1971, mainly thanks to the votes of African representatives.

The 1980s and 1990s saw a decline in the intensity of Sino-African relations. This is partly explained by the development crisis in Africa, and partly by the concentration of efforts on the post-Mao transition in the Asian country. In the 2000s, with Chinas membership in the World Trade Organisation and its emergence as an exporting economic power, Chinese interest in Sino-African relations was reborn. As a result, successive meetings of the Forum on China-Africa Cooperation (FOCAC) have been held every three years since 2000. Significantly, almost all African presidents attend these high-level meetings, where strategic and financial commitments between China and Africa are staged.

At the last FOCAC meeting, which took place in September 2018 in Beijing, the Chinese government announced a commitment to spend US$60 billion in various financing programmes in the coming years. Thanks to the remarkable increase in its financial commitments at successive FOCAC meetings, China has become a major player in the field of financial cooperation with the continent. The figures rose from 5 billion in 2006 to 10 billion in 2009, 20 billion in 2012, and 60 billion in 2015 as part of the Belt and Road Initiative. What stands out in the 2018 commitment is the change in the composition of the financial package compared to previous ones, where there was a high degree of concessionality. All in all, 15 billion will be devoted to grants, interest-free loans and concessional loans; 20 billion to credit lines; 10 billion to a special fund for investments in the continent by Chinese companies; and 5 billion to a special fund for the financing of imports from Africa. Finally, and for the first time, 10 billion are expected to be mobilised from private companies to be invested in the continent. In short, current commitments are more moderate than the previous ones, and the degree of concessionality is more limited, which reveals a risk reduction strategy.

> China-Africa trade essentially maintains the pattern whereby Africa exports raw materials to China and imports processed goods, such as electronics and transport equipment

The outbreak of the COVID-19 pandemic led to a redefinition of many of these programmes. While maintaining the approach consolidated in previous years, the Chinese authorities have devoted resources to urgent debt renegotiation operations for African countries under the IMF's DSSI initiative, and other bilateral operations.

If we look at the figures for economic exchanges between China and African countries, in the last decade China has consolidated its position as the continent's main trading partner. Taken as a whole, the European Union is still Africa's leading trading partner in terms of exports; however, after disaggregating to national level, the leading destination for African exports is China. Significantly, despite the rhetoric in favour of structural transformation, China-Africa trade essentially maintains the pattern whereby Africa exports raw materials to China and imports processed goods (such as electronics and transport equipment).

China's influence on Africa's development strategies

Another area where China's influence makes itself apparent is the definition of the continent's development strategies. In the structural adjustment policies promoted by the World Bank and the IMF since the 1980s for the most heavily indebted African countries, the aim was to give more space to the market through privatisation, deregulation and opening up to foreign markets. The rationale for doing so was the belief that the market, freed from the shackles of public intervention, would work its magic and trigger the process of economic development. Two decades later, in the early 2000s, this deeply ideological approach began to be revised in the face of poor results in terms of poverty reduction and economic transformation on the continent.

In the course of this revision, a series of analytical and instrumental frameworks which appeared to be obsolete in the last years, such as “structural transformation”, “industrialisation policies”, or “productive linkages”, have been taken over even by the World Bank since the appointment in 2008 of the Chinese Justin YifuLin as the institution’s chief economist. This revision is not only a response to the failure of previous policies, but also to China’s growing influence in the African political economy. Indeed, the Asian model of state capitalism oriented towards the structural transformation of the economy with a strong, interventionist state (the so-called developmental state as Chalmers Johnson dubbed it), spearheaded by China, has become an attractive model for many developing countries.

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Although China, unlike the IMF or other Western donors, does not directly interfere in the economic strategies of the countries where it establishes cooperation frameworks, it does provide a type of financing and support that is in line with today’s prevailing structural transformation strategies. This is especially true in the case of infrastructure, as we can see in the unique case of Ethiopia.

China’s role in Ethiopia’s economic transformation

Ethiopia is one of the cases which help understand the extent and manner in which China has entered the continent’s political economy. Firstly, we can trace the doctrinal influence of the Chinese model of state capitalism, with an interventionist government engaged in economic transformation, along the lines of the Asian developmental state. Between 2002 and 2010, two major quadrennial plans, heavily influenced by the Bretton Woods institutions, were successively implemented in Ethiopia: the Sustainable Development and Poverty Reduction Programme and the Plan for Accelerated and Sustained Development to End Poverty. Between 2010 and 2020, however, the programmes deployed have been the Growth and Transformation Plan I and II (note the significant changes in vocabulary).

On the other hand, the volume of loans granted by China to the country is also relevant. It has reached 13.7 billion dollars since 2000 according to data from the China-Africa Research Initiative, a remarkable amount that makes China currently one of the country’s main creditors. A substantial part of these loans has been used for the financing of economic infrastructure, in line with the Ethiopian government’s bid for structural transformation.

An example of this is the full reconstruction of the Addis Ababa-Djibouti railway line (759 km) between 2011 and 2016 with $3 billion provided mainly by the Exim Bank of China. The work was carried out by two Chinese state-owned companies (China Railway Group and China Civil Engineering Construction Corporation), which of course incorporated Chinese materials and technology. The aim of this project is not only to promote the mobility of people, but above all to facilitate the traffic of goods between the main economic centres of the country and the port of Djibouti, its natural outlet on the Red Sea. To accompany this investment, the Ethiopian government acquired 9 cargo ships for the international transport of goods operating from Djibouti. Other relevant transport infrastructure projects financed by China include the urban light rail in Addis Ababa or the Addis Ababa-Adama highway.

The Ethiopian government's other major project in this commitment to economic transformation is the construction of the Grand Ethiopian Renaissance Dam on the Blue Nile river since 2011, which will be the largest hydroelectric power plant in Africa in terms of electricity generation when fully operational. This is a controversial project at the regional level insofar as Egypt sees it as a threat to the flow of water from the Nile, the real backbone of that Arab country. In any case, the Ethiopian authorities see the plant as an opportunity to provide the electricity needed to drive the economic transformation to which they are committed. The plant is essentially financed by government bond issues placed on the domestic market, and the construction and technology are essentially the responsibility of Italian and French companies. However, an important part of the project, the high-voltage lines that will transport electricity to urban and industrial centres, as well as the electrification of the Addis Ababa-Djibouti railway line, are contracts with Chinese companies and are also financed with Chinese capital. The deployment of the Internet and telecommunications in Ethiopia has also been the subject of massive Chinese investment since 2006, in this case directly financed by the companies involved, ZTE and Huawei.

Another economic initiative in Ethiopia that reflects the strong influence of the Chinese development model is the deployment of industrial parks, which follows the model of the Special Economic Zones located on the Chinese coast since the 1980s, such as Shenzhen. In Ethiopia, the first of these parks was directly driven by a private Chinese investment in 2006 (Eastern Industry Zone), and there are currently 10 of them (6 public and 4 private), which employ directly some 80,000 people. In fact, this initiative is not exclusive to Ethiopia, given that since the beginning of the century and within the framework of China-Africa cooperation policies, 6 special economic zones are being deployed in Sub-Saharan Africa with the support of the Chinese government (in Nigeria, Zambia, Mauritius and the aforementioned one in Ethiopia).

> The Belt and Road Initiative has been at the heart of China's foreign expansion strategy

Despite the country's high GDP growth rates (almost an annual 10% in the last decade excluding the effects of COVID-19 in 2020) and the advances in poverty reduction as well as industrialisation, this model is not free of limitations and contradictions, such as the unsustainable use of natural resources (water) or the strong territorial tensions, which in the last year have even led to internal armed conflicts.

The next decade: Belt and Road and African Continental Free Trade Area

The Belt and Road Initiative, China's bid to consolidate its position in the global economic arena through investments in infrastructure and economic alliances, has been at the heart of China's foreign expansion strategy since its approval in 2013. Although the main geographical focus of the initiative is in its immediate Asian environment, the project has substantial implications for the African continent. The strong provision of funds that it will entail will mean a continuity in the commitments to build and improve economic infrastructures on the continent, with the main objective of consolidating trade routes with China. We say "main" because, although the investments planned within the framework of the initiative are mainly located in East Africa in what is known as the Maritime Silk Road, some of them are not directly related to this main goal. It is the case of the renewal project for the railway line between Dakar and Bamako in West Africa, for instance.

If one looks at the contents and deployment of the Belt and Road initiative, it does not seem bound to bring about a major change in China-Africa economic relations. Its 'three networks and industrialisation' principle (roads, railways, airports and industrial development) does not deviate from what has been the main thrust of China-Africa economic cooperation programmes over the past two decades. On the other hand, it should also be noted that the volume of Chinese investment in infrastructure on the continent has remained largely unchanged since the middle of the last decade. Finally, it should be noted that we do not yet have the time perspective to assess the effects of the Belt and Road Initiative in Africa. As of 2018, only a small number of African countries have signed up, so the initiative is far from fulfilling its potential.

A different issue for African economies as a whole is the establishment of the African Continental Free Trade Area (AfCFTA) in 2018, an ambitious continent-wide regional economic integration initiative. Africa is the world region where most regional integration projects have been attempted (CEDAO, SADC, etc.); there is certainly an integrationist spirit in the continent. It is fair to say that the success of these initiatives in economic terms, and particularly in terms of increased trade, is rather low: intra-African trade remains at very low levels. This is mainly explained by the disarticulation of production (specialisation in a few products), the lack of complementarities between African economies (dependence on the production of raw materials that are not consumed on the continent), and the lack of transport infrastructures to facilitate trade.

It is important to note that for its promoters, grouped under the African Union, the AfCFTA is an instrument of economic transformation along the lines of the doctrinal changes noted above; deregulation of international trade is not a goal per se. In this sense, in order to avoid the limitations of integration projects noted above, active industrial policies are needed to help articulate economies and eventually promote trade.

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China has already expressed its support for AfCFTA, and is willing to finance some of the infrastructure needed for the deployment of the integration process. The African Development Bank puts these investment needs at $130-170 billion per year, of which $68-108 billion would have to come from abroad. Although the Belt and Road Initiative makes the availability of resources somewhat difficult, the Chinese government has expressed in its public statements its willingness to participate at a financial and technical level in these infrastructure investments, as well as in capacity building.

Conclusions: China-Africa in the next decade

China’s influence on Africa’s political economy is substantial on many levels. It is Africa’s largest trading partner and also one of the main investors, especially in infrastructure. On the other hand, the commitments made by China’s institutions have a clear long-term vision. On the Chinese side, the need to forge strategic alliances with other developing countries implies a solid and long-lasting presence on the African continent. As the Ethiopian case shows, China’s influence is not only vehiculated by economic flows (trade and investment), but also affects the foundations and implementation of development strategies.

However, some imbalances are apparent. First, the trade pattern reproduces the classic pattern whereby African countries essentially export raw materials and import manufactured goods. Second, there are risks of over-indebtedness, which have been accentuated by the COVID-19 pandemic. Although the Chinese authorities’ policy of *ad hoc* debt write-offs and restructurings has prevented major default crises, we will have to keep close attention to new developments. Finally, the need to decarbonise the economy in order to comply with international commitments to fight global warming may lead to a reassessment of some of the infrastructure construction projects and the intensification of international trade.

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