



Webinar on Chinese Engagements in Africa SNRD Working Group PPARD

Nairobi, 10.10.2017

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Webinar Objective:

Our ability to provide and assess information on Chinese cooperation in Africa has improved, particularly in the agriculture sector. Possible coordination mechanisms are discussed.

Agenda:

- 1. Introduction:** Self presentation, agenda
- 2. Presentation,** an overview: Chinese engagement in Africa: history, organisation, extent (statistics), case Kenya, strengths & weaknesses, cooperation?, sources of information
- 3. Q&A:** Clarification
- 4. Discussion:** Lead questions: What is your experience? What is your assessment?
- 5. Wrap up:** What next?, overview matrix



Chinese engagement in Africa: Historical overview

- **1950s/1960s:** leaders such as President Nyerere of Tanzania turned to China to build “Third World solidarity” (Tan-Zam Railway). Trade and investment between Africa and China lagged behind that of Africa’s traditional Western partners
- **1971:** seat in UN returned to the People’s Republic of China, 26 of 76 votes came from African nations
- **1990s:** around 90% of African countries recognized the People’s Republic of China
- **1999:** Launch of China’s “**Going out policy**” encouraging Chinese private enterprises to invest abroad
- **2000:** Launch of the the Forum on China-Africa Cooperation (**FOCAC**), Beijing



Chinese engagement in Africa: FOCAC, Action Plans



- **2000:** Launch of the **Forum on China-Africa Cooperation** (every 3 y.)
- **2006:** 35 African heads of state attend FOCAC in Beijing
- **2015:** 6th FOCAC in Johannesburg produced an **action plan (2016-2018)** covering political, economic, culture & security cooperation plus social development. Agriculture & Food Security is a priority area: agricultural transformation. Topics:
 - industry partnering and capacity cooperation; infrastructure development; energy and natural resources; trade; ICTs; health/ hospitals; finance; tourism; culture and security cooperation; agricultural transformation, fishing; vocational training.
- **Consultation and cooperation mechanisms:** bilateral joint commissions, strategic dialogues, foreign ministries' political consultations, and joint/mixed commissions on economic and trade cooperation, consultation and cooperation mechanisms. Bilateral MoUs were signed. Coordination with CAADP initiated.



Some statistics: Trade, Investment and Aid

Africa's top goods trade partners,
\$ billion, 2015



Africa's trade balance with China,
\$ billion, 2007-16



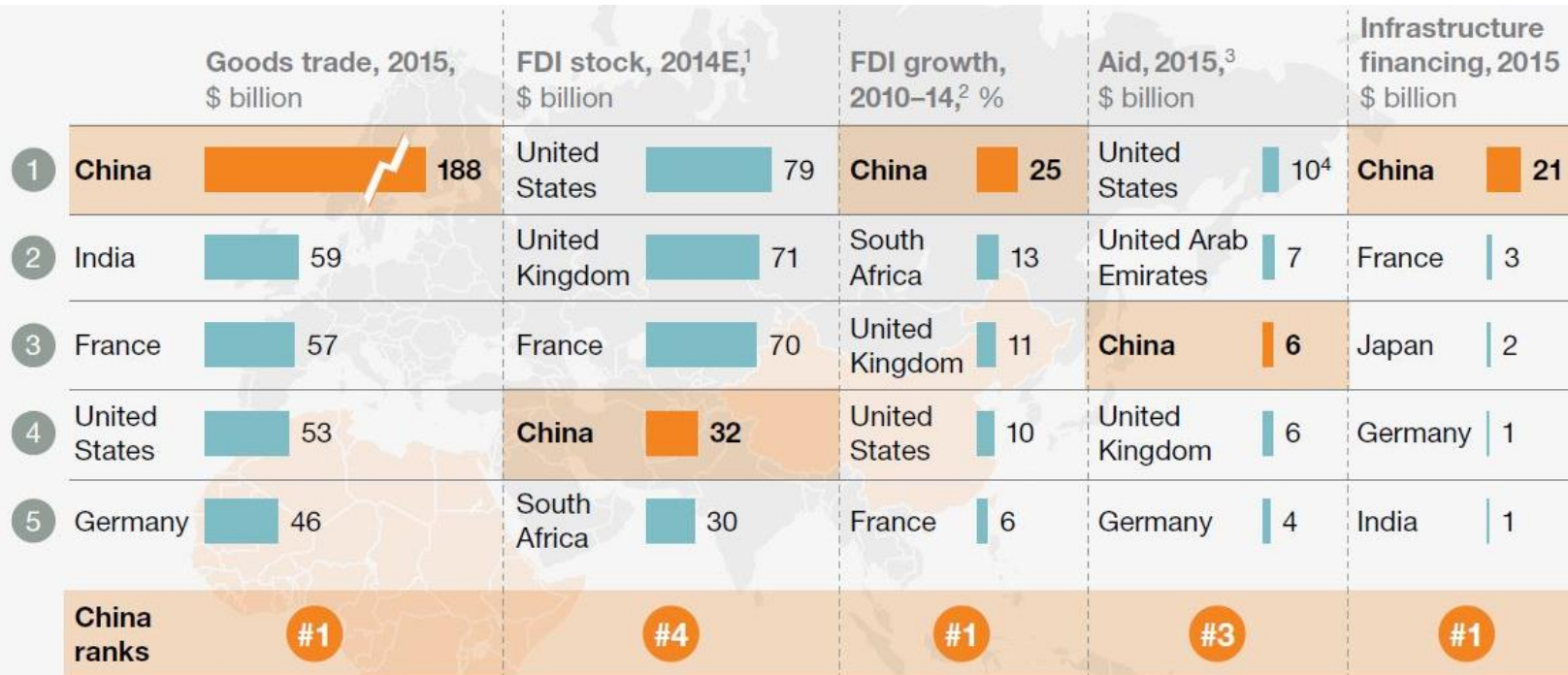
#1 Trade partner



Source: McKinsey&Company:
Dance of the lions and dragons;
Sun, Jayaram, Kassiri (2017)



Some statistics: Trade, Investment and Aid



Source: McKinsey&Company: Dance of the lions and dragons; Sun, Jayaram, Kassiri (2017)



The Chinese Players:

- **No single Chinese agency** for international cooperation. Unique definition of aid – differing from OECD standard. Comparisons with other countries' aid flows difficult. China's government agencies, SOEs, SMEs, and financial institutions are a **complex set** that often reflects **multiple interests** and **uncoordinated agendas**
- **The Ministry of Commerce (MOFCOM)** is the **lead agency** in managing economic policies and foreign aid (international trade, economic affairs including economic and technical cooperation with United Nations and other international organisations). Relevant departments: Outward Investment and Economic Cooperation, Foreign Assistance, International Trade and International Affairs, Western Asian and African Affairs, and others.
- The **Ministry of Foreign Affairs (MOFA)**, the **Ministry of Finance (MOF)**, other **central and local government agencies**.
- The Exim Bank, **State-Owned Enterprises (SOEs)**, **private enterprises**, provinces and institutions are also involved in delivery and implementation.



Chinese International Cooperation: Categories and Principles

- 47% of China's total foreign assistance goes to Africa (Germany: 35% of ODA, 2010-2014)
- It builds heavily on concessional loans for infrastructure and export credits.
- Five **categories** of foreign aid:
 - Complete set projects (all kinds of construction projects)
 - Material aid projects
 - Technological projects
 - Human resources development
 - Volunteer service
- China's Africa **Policy (2006)**:
 - Sincerity, friendship and equality
 - Mutual benefit, reciprocity and common prosperity
 - Mutual support and close coordination
 - Learning from each other and seeking common development



4 levels of engagement

Robust partners, e.g. Ethiopia and South Africa

Clear strategic posture. High degree of economic engagement in the form of investment, trade, loans, and aid, specific initiatives related to China, important relationships with Chinese provinces

Solid partners. Kenya, Nigeria, and Tanzania

government relations and Chinese business and investment activity are meaningful and growing, China's importance recognized, Chinese enterprises' operations due to large markets or historical ties

Nascent partners, e.g. Côte d'Ivoire

At the very beginning of developing a partnership with China, investments in low commitment sectors

Unbalanced partners, e.g. Angola and Zambia

Engagement with China narrowly focused, either governmental or private



Chinese Engagement: Private Sector

- Chinese firms are making healthy profits, largely serving domestic markets
- Very diverse private sector: 30% in manufacturing, 25% in services, 22% in trade, and 15% in construction and real estate
- Sizeable market share, e.g. in construction and real estate (~50% of Africa's international EPC market)
- the majority of Chinese firms have made investments that represent a long-term commitment to Africa

- **Perspective:**

Businesses will mature into large companies characterized by extensive capital investments, diversification into different sectors, expansion across geographies – or all three

10,000+

Chinese firms
in Africa



30%+

Chinese firms in
manufacturing



~90%

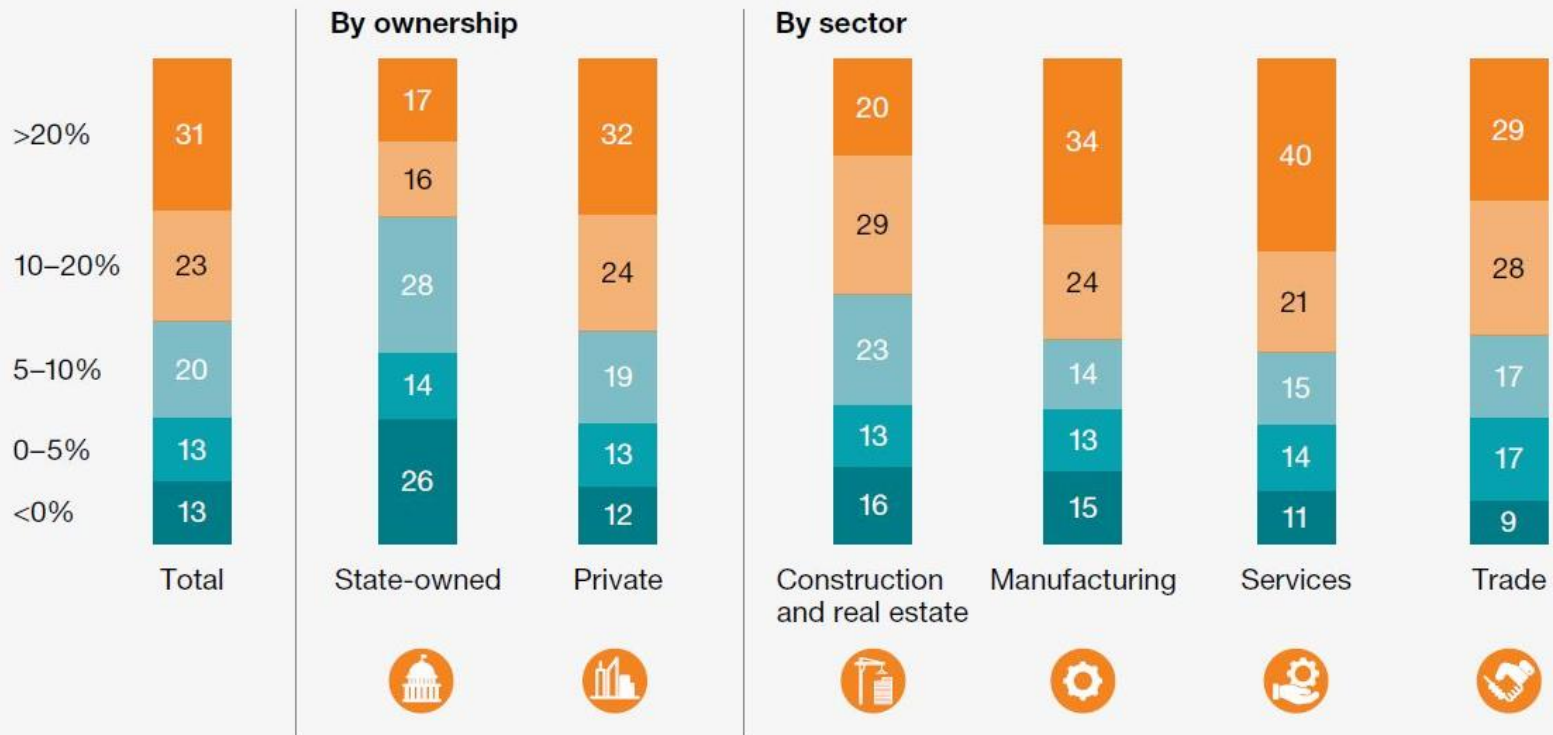
Private-owned
Chinese businesses





Some statistics: Chinese firms are generally profitable

Profit margin split by ownership (2015)
% of firms



Source: McKinsey&Company: Dance of the lions and dragons; Sun, Jayaram, Kassiri (2017)

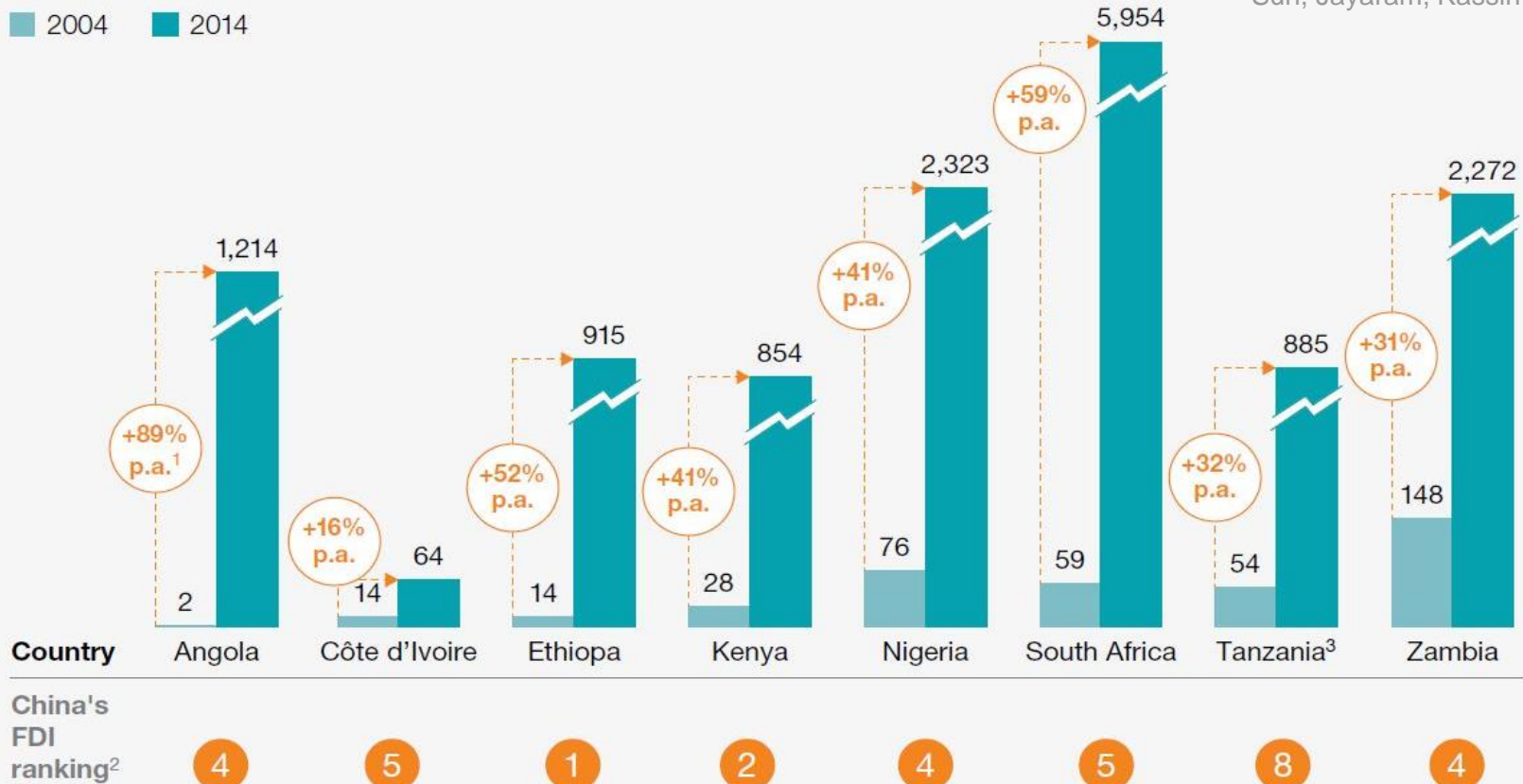


Some statistics: China's FDI in different African countries

FDI stock from China
\$ million, official cross-border flows only

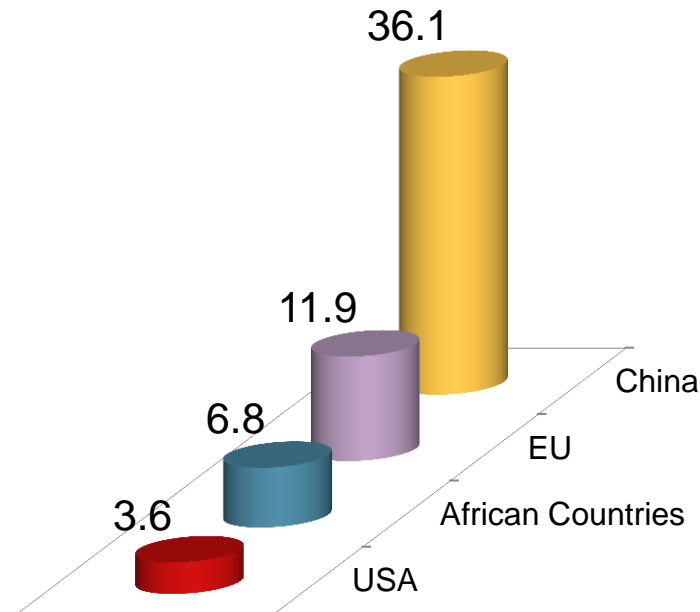
Source: McKinsey&Company:
Dance of the lions and dragons;
Sun, Jayaram, Kassiri (2017)

2004 2014





Some statistics: China's FDI in comparison to other players



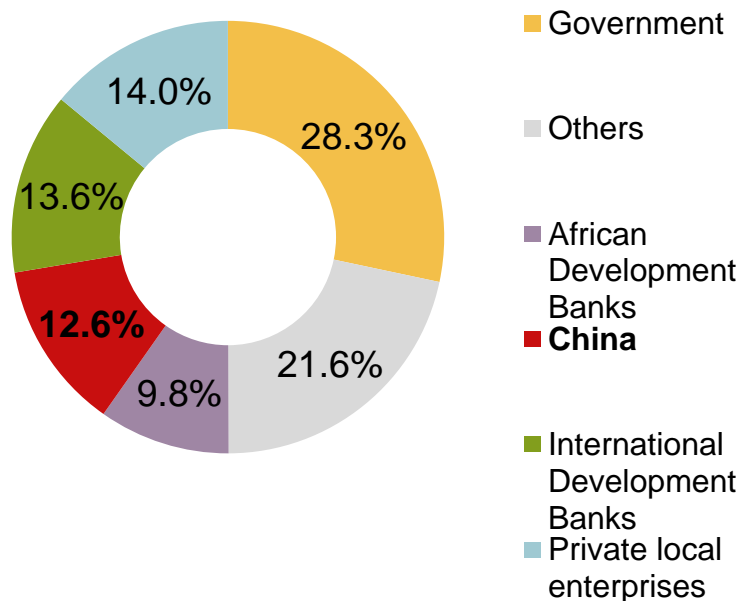
Planned FDI 2016 (in Bill. USD)

Source: own representation based on Handelsblatt Grafik: Chinas Griff nach Afrika; Ahmad, Hergert, Wünsche (2017)

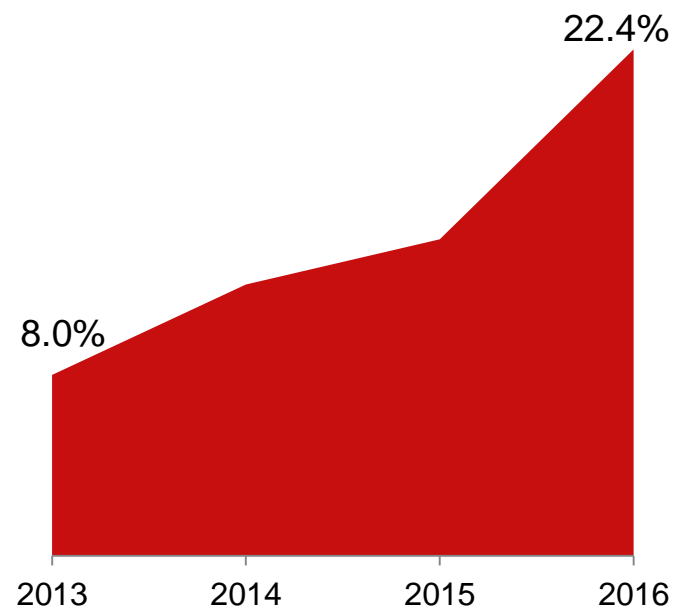


Example: China is the single-largest bilateral infrastructure financier in Africa

Financiers for infrastructure projects 2016



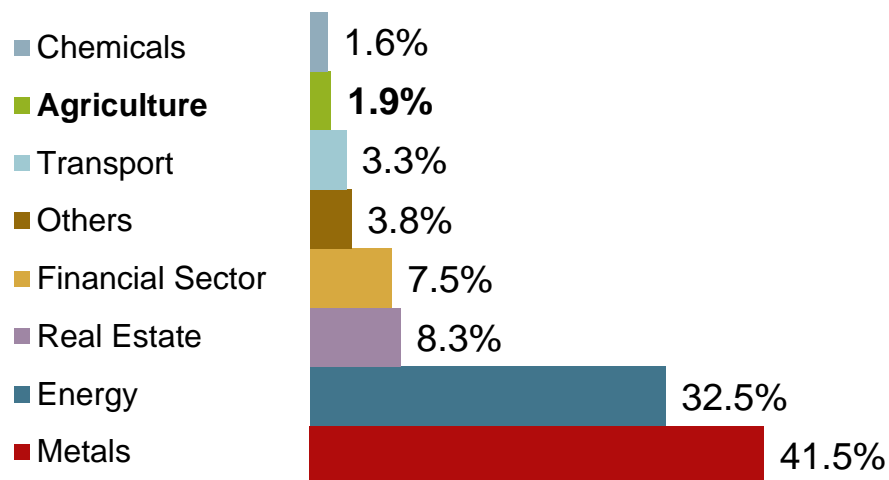
Infrastructure projects implemented by China



Source: own representation based on Handelsblatt Grafik: Chinas Griff nach Afrika; Ahmad, Hergert, Wünsche (2017)



Example: Chinese direct investments



Chinese investments in Sub-Saharan Africa 01/2005 – 06/2017

Source: own representation based on Handelsblatt Grafik: Chinas Griff nach Afrika; Ahmad, Hergert, Wünsche (2017)



Case Study: Kenya

- China has increased its financial grants to Kenya over the years since independence; good diplomatic ties and bilateral cooperation
- Kenya is a member of **FOCAC**. Category: **Solid Partner**
- China's general **financial support** includes key sectors: energy, manufacturing, infrastructure, ICT, health, agriculture and tourism.
- **Information** (reports, statistics) on China cooperation is **scarce**: Kenya National Treasury indicates that Kenya has received ~EUR 4.03 billion financial support from China since 1964.
- On 10th May **2014**, Kenya and China signed **15 bilateral agreements** and **Memoranda of Understanding** on bilateral cooperation in: environment, agriculture, health, transport, culture, vocational training and investment.



Case Study: Sino-Kenyan Projects

Construction

- Standard gauge railway
- Kenya Power distribution system in Malindi
- Geothermal Project Olkaria
- Moi Sports Complex Kasarani,
- Moi Teaching and Referral Hospital, Eldoret,
- Thika Road Development (Lot 3),
- Kenyatta University Teaching and Referral Hospital,
- Nairobi Eastern and Northern Bypass Project,
- Mama Lucy Kibaki Hospital
- Maize Flour Mill Project, amongst others.



Chinese Investment Engagement: Economic benefits to Africa

- **Job creation, skills development**, transfer of new technology and knowledge, and financing and development of infrastructure:
 - 89% of employees African >> 300,000 jobs for African workers
 - 2/3 of Chinese employers provide skills training
- **Modernization and innovation**: 50% of Chinese firms have introduced a new product or service to the local market, 1/3 have introduced a new technology.
- **Efficiency**: Chinese firms have lowered prices for existing products and services by as much as 40% through improved technology and economies of scale.
- From an African perspective: cost effectiveness, administrative efficiency, and **speedy delivery** without compromising quality

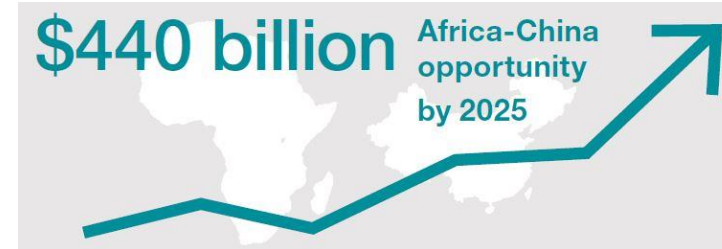


Chinese Investment Engagement: Areas for improvement

- Only 47% of the Chinese firms' **sourcing** was from local African firms
- Many Chinese firms have so far failed to promote African workers to **management positions** in sufficient numbers; only 44% of managers are locals.
- Instances of major **labor and environmental violations** by Chinese owned businesses (inhumane working conditions, illegal extraction of natural resources including timber and fish, unfair or unsafe business practices, land grabbing)



The Future



- **expanding aggressively** in existing and new sectors, Chinese firms could reach revenues of USD 440 billion in 2025
- Chinese investment in manufacturing, services and trade **grows faster than the economy**
- **New sectors:** agriculture, banking and insurance, housing, ICT and telecommunications, transport & logistics
- **African economies** could gain greater **capital investment** to boost productivity, competitiveness, and technological readiness, and tens of millions more African workers could gain stable **employment**



Sources of Information

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