#395: China in Africa: Who benefits?

VOICEOVER

This is Up Close, the research talk show from the University of Melbourne, Australia.

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PETER CLARKE
Hello. Welcome to Up Close. I'm Peter Clarke. Africa, that vast continent of over 1.2 billion people, over 55 countries, a geographical mosaic of complex ethnic and tribal histories, many barely known to most of us, and sharply-varying political, economic and cultural profiles. China, that vast country of over 1.35 billion people, politically totalitarian, economically vigorous and ambitious with thousands of years of continuous cultural history, today largely dominated by ethnic Han Chinese.

China may be Africa's biggest trading partner today, but contacts between Africa and China go back many centuries. Later waves of colonisation and occupations in Africa have veiled these earlier Sino-African contacts. More recently, economic relations have focused on China's search for fossil fuels, especially oil, and on mineral extraction in a number of developing African countries. The tempo has intensified as the PRC continues to nurture new markets in Africa for its manufacturing outputs and cheaper labour for its production of simple and sophisticated goods, including automobiles.

What exactly is happening economically and politically between China and Africa right now? What is the future trajectory of the many evolving Sino-African relationships and who is benefiting the most from those relationships? Our guest this time on Up Close has made it her business to research these questions and to some extent, read and divine the future of these Sino-African developments, only sketchily covered, if at all, by the media in the Anglosphere.

Dr Lauren Johnston is based at the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne. Dr Johnston has published extensively in this area and lived and worked in both China and Africa for long periods. Lauren, welcome to Up Close.

LAUREN JOHNSTON
Hello, Peter. Thank you.

PETER CLARKE
Now, how early did Chinese officials actually reach Africa?

LAUREN JOHNSTON
Chinese officials reached Africa in the 1400s when Admiral Zheng He had a large fleet and was travelling around the world. Then there was a long break through the 1500s up until I guess the early 1900s, and probably ties really took off politically once the PRC was formed in 1949, and then economically really in the last 20 or more years have ties grown to be quite important economically at both ends.

PETER CLARKE
As you mentioned, Lauren, the People's Republic of China is formed in 1949, after the revolution of course. Were there any African countries who were early recognisers of the new Communist nation?

LAUREN JOHNSTON
The very first one in the whole of Africa was Egypt, and then for sub-Saharan Africa it was Guinea and West Africa. Most African countries were colonies at the time so not all actually even had the right to recognise China. Many more recognised China from the 1960s when they had the independence to actually do that.

PETER CLARKE
But before that period, before we started to see African countries gain their independence, China did send some high-level officials. Who were the earliest ones to go and what did they do?

LAUREN JOHNSTON
The classic visit is the visit by Premier Zhou Enlai, I think in 1967. He visited five or six African countries. The most important thing he did on that visit was announce the principles of Chinese aid to Africa. He officially launched China's aid to Africa, which at the time was really built on political independence and political freedoms for African countries. It really focused on the principles of mutual respect, principles of non-interference, a rejection of colonialism and a different type of relationship that this was a relationship of equality and not one of a colonial ruler and a subjugated state. The main thing he did was really to launch this new style of relating the principles of its foreign aid and relationship with developing countries, which still hold to this day as the principles.

PETER CLARKE
As an economist, do you see China at that point as a developing country itself or is it some sort of hybrid even then?

LAUREN JOHNSTON
It's a giant developing country. Demographically it's a giant; politically it's a relative giant, to the extent that it is a large developing country it can maybe have outreach to...
other developing countries that smaller developing countries simply don't have the scale and the funds to realise or to achieve. Fast-forward to today; China has embassies in virtually every country on earth.

PETER CLARKE
If we’re looking for patterns in those early stages China to Africa, geopolitics certainly played a part, didn't it? Especially the One China Policy, recognition of Taiwan, a pattern I guess we're still seeing today to some extent. Just explain how the One China Policy shaped to some degree which countries were in favour with China, for example.

LAUREN JOHNSTON
Yes. Since the PRC was founded in 1949 there has been this lingering question of Taipei versus Beijing. At the Africa end there has always been two or three countries recognising Taipei; I think today there are still two. Some say some of the aid and some of the economic relationship is around that relationship and whether Taipei gives more aid or whether Beijing gives more aid, then that depends which country the government of the day and that country will recognise.

Weak states may need resources and that will allow them to be swayed between Beijing or Taipei. Over time the number of African countries recognising Taipei - some swap, some have swapped continuously over time, they go backwards, forwards, backwards, forwards. Many countries, once they recognise Beijing, they simply have consistently and always recognised Beijing.

PETER CLARKE
What were those earlier economic aims driving the Chinese moves?

LAUREN JOHNSTON
Up until the 1990s, it wasn't a dominant driver of China-Africa ties. China began a period of opening and reform in 1979 and through the 1980s there was some debate in China itself as to whether or not China should carry on giving this aid that Zhou Enlai had launched in the '70s; should China carry on making that a focus or should it first concentrate on developing itself and really dedicate its resources to its own development. In the 1980s there was continued aid to Africa but the focus really was on China and China's development, at least proportional to what it had been in the '70s.

Then once China had successfully managed to advance its own economy, then its own needs economically started to change. In the early 1990s, China became dependent on foreign countries for oil, which was a first. By the early 2000s - I'm jumping forward - it was the hub of the world timber-related industries. It really became a really hungry, hungry economy in terms of resources, and Africa was almost waiting for suitors in terms of its resources, some countries at least. So that began a new type of partnership, a basic complementarity, when China became very hungry for resources, that opened up a door for a massive scaling-up of the relationship between China and Africa, at least with a couple of resource-rich
countries in particular.

PETER CLARKE
Lauren, you talked about a complementarity a little moment ago. What was the very essence of that complementarity? Mainly revolving around shifting demographics and ageing populations and I guess and an emerging middle class, all those sort of things?

LAUREN JOHNSTON
What you're hinting at is the exciting story of how that complementarity has changed over the last two decades. The China-Africa relationship, at least among academic scholars, is seen to have shifted from politics to economics in the mid-1990s. That shift in the mid-1990s was really driven by China's demand for resources, for oil and minerals and commodities.

Now, if you fast-forward to around 2009 and into 2010, '11, by this stage China's economy has almost outgrown its own demand for some of those commodities and that oil. The global financial crisis has led to a fall in demand for China's exports. China's own energy-intensive growth is generating some problems of pollution in China; it's pushing water consumption to unfavourable limits and it's producing a lot of carbon as well. So there's some environmental pressure points which that model of growth was also pushing to new limits.

Then finally, thanks to the One Child Policy in China, which was a program of enforcing birth control on families to limit the growth of the Chinese population from the late 1970s, fast-forward over three decades of population control and by now you have a workforce in China that's very disproportionately old; the median age has shifted from probably the twenties to the late thirties, if not even around forty.

The new entrants to the labour market are fewer than they were in the 1980s and 1990s and thanks to China's development level, they're also a lot more educated and a lot more international and are looking for higher-quality jobs and higher-quality lifestyles, and they're a lot more expensive. The minimum wage in southern China is now $500 a month. This is no longer a labour-intensive, very cheap frontier that it was 20 years ago.

PETER CLARKE
Meanwhile in Africa, a younger population, cheaper labour?

LAUREN JOHNSTON
Indeed. You almost see the demographic process that took place in China over the last 30 years is in some countries showing signs of repeating in terms of as incomes are starting to rise, as women start to get more educated, then they tend to have fewer children and the children they have actually have access to medical care, so they live. So you see these nascent signs of falling fertility in selective African countries which, just as happened in China for 30 years, that will produce a very large workforce share of population which, at the moment at least, offers relatively
cheap wages, just the way China's population did 20, 30 years ago. Now you see Chinese companies looking, is it time to think about repeating that model elsewhere in cheaper frontiers and economic frontiers of tomorrow, as China was 30 years ago.

PETER CLARKE
This is Up Close, coming to you from the University of Melbourne in Australia. Our guest, Dr Lauren Johnston, is an expert on economic and political relationships between China and various developing countries in Africa. Lauren, I think many people listening to this would be very surprised to hear that China now is using cheap African labour on their own production lines, in Africa.

LAUREN JOHNSTON
Starting to. It's a nascent, steady process of transfer of these labour-intensive factories, and in fact, Kenya, Ethiopia and Tanzania are three of the target countries. Those three countries are at the frontier of China just beginning to shift textile factories, some automotive factories. Of those three countries, Kenya, Ethiopia and Tanzania, Ethiopia is the frontier of the textile outsourcing and Ethiopia itself has an ancient tradition of leather trade and leather manufacturing. It does have a custom of textiles and now that custom is becoming a Chinese production factory floor with Ethiopian labour costs being something on par with what China was in the 1980s.

Then using that base in Ethiopia (a) to offer jobs to the local population, which is disproportionately young and perhaps finding opportunities otherwise in the informal sector, and then secondly, being able to export to Europe, to the Middle East, to America. It's a proximate base to export to those markets. Many of those countries give Ethiopia trade preferences because it's a very, very poor country, so it makes sense on a couple of fronts. The labour is cheaper, the shipping distance is less, and then there's trade preferences making the trade even more favourable.

PETER CLARKE
Let's focus on that trinity, the trinity of trade, investment and aid, China to Africa and of course, Africa back to China. How did these three things evolve and develop during the '90s and onwards, Lauren?

LAUREN JOHNSTON
China itself was an aid recipient. It's still a developing country today. For many, many years China was an aid recipient from Japan, from Korea, from the west, from the Soviet Union.

PETER CLARKE
From Australia even.

LAUREN JOHNSTON
From Australia even. Yes, actually it's true. Australia was one of the early donors to China once it began opening and reform in the late 1970s. Prior to opening and reform, the Soviet influence was quite important. One or two of the precedents from that period was this pattern of relating to developing countries from the package of
aid, trade and investment. Rather than seeing them as separate flows, to take them as a package that the aid could support the trade and the aid would very directly be used to support investment and not seen as its own separate space.

Japan followed a similar model. When Japan became an aid donor to China, it was really about promoting Japan's model of export-orientated industrialisation. Japanese firms moved to China, took advantage of the cheap labour, supported by Japanese policy banks, Japanese export banks, and from there built multinational Japanese firms. Really, China is following now in those footsteps of the Soviet Union, of Japan, of the west but particularly of the Soviet Union in Japan in building this integrated model of aid, trade and investment. So explicitly using aid to help other countries to begin to export and grow their export strength, and doing that through Chinese investment which is sponsored by the aid. It's just China doing what was done in China in other countries. So in effect, China has gone from recipient to donor or to investor or both. It's a transition from receiver to outbound aid and outbound investment.

PETER CLARKE
So Lauren, from what you just described, is there an intrinsic difference between the way China operates its aid program with say western countries like Australia we just alluded to, but other aid-giving countries to the developing aspect of China?

LAUREN JOHNSTON
In the 1990s the western donors were very concentrated on the Millennium Development Goals, and the Millennium Development Goals were focused on child mortality and hunger and baseline poverty, baseline rising incomes. China at that time was really more a recipient than a donor; its aid program was relatively small in dollar terms. Fast-forward to this model of outbound aid, trade and investment, some of the sectors that China has a comparative advantage in include now infrastructure. They're very strong in infrastructure, they have some large companies that can build infrastructure at a very competitive rate.

PETER CLARKE
Especially things like railways.

LAUREN JOHNSTON
Yeah, like railways, like roads, bridges, and China has over invested in those sectors itself for the last several decades, so now it has an excess capacity in that area. In Africa on the other hand, there's massive unmet demand for infrastructure. So China is setting up, or at least it has over the last decade advanced its aid infrastructure and its aid systems such that they can take that Chinese infrastructure capacity and help to make it a more commercially viable investment in countries that need that infrastructure investment. They haven't been focused on the Millennium Development Goals, they've been focused on physical infrastructure, which is a kind of a win-win for them.

They have realised that other developing countries need that capacity, so they have
built into their aid model funding models as to how other countries can get access to that infrastructure capacity. Based on China's own development experience also, the Chinese believe that you won't address poverty until you at least have the basic infrastructure to help the economy to operate and the economy to function. Really, there hasn't been a lot of infrastructure to integrate African markets to make the ports efficient. I guess the Chinese view of the macro-development story is that you do need the infrastructure, which is not to dismiss other parts of the ingredients of growth, but to at least regard that as one cornerstone and a cornerstone that they have a capacity to help those countries to realise.

PETER CLARKE
Reading some of your writing, there's a phrase that sticks in my mind which goes to some of the tensions between some of Africa and some of the governance there and China itself - infestors not investors. Are there some deep-seated tensions between some African countries and China? I'm thinking of the democracies versus the Communists, as simple as that, some of it.

LAUREN JOHNSTON
The quote you mentioned was from a Zambian election, I think in 2006. I've read some quotes from the Chinese side about how they saw that race, so just for the listeners' information, that election in 2006 was fought on the basis that the incumbent government had ties that were too close to China and the opposition used those close ties as a way to generate support for its own different policies.

On the Chinese side, they saw that as a process of political opportunism more than about the fact that China's ties with Zambia were too close or otherwise, jokes that after the election whoever is in power carries on in any case, so it's really like a story of an election debate more than it is an issue of China being close or otherwise. In democracies all across the continent there's obviously a lot of debate on a lot of topics. One of those topics where China is a big economic player in those countries and how the contracts are being allocated, how they're managed, who gets the onward contracts, it actually can be quite difficult to know.

For example, I read something recently about the train line China is building in Kenya, the standard gauge railway that China is building from the port of Mombasa to Nairobi and onward to help facilitate trade across east Africa and a Kenyan supplier to the railway line was complaining about who had won the contracts and why. At least from my vantage of doing macroeconomic research, it's quite hard to know if those are the voices of entrepreneurs who legitimately lost a bid for a contract, just the voice of bitterness for having lost a contract, or a competitive bidding process, versus understanding whether or not the contracts weren't indeed competitively able to be bid for. And probably there are cases of both across different countries across different points in time, so it's (a) hard to generalise and (b) really hard to actually know what's going on on the ground.

PETER CLARKE
Lauren, who is China up against most in Africa? Who are their key economic
competitors from elsewhere in the world?

LAUREN JOHNSTON
Internationally, there's now greater awareness, which means that a lot more investors are expressing an interest in investing in infrastructure, in opening factories. So you see, it's not only Chinese textiles factories now in Ethiopia, there are western textile companies and of course there are a lot of European infrastructure companies that are also bidding for projects. It's a question about funding, and at the moment the Chinese state has been willing to provide affordable and ample capital for those kind of infrastructure projects. There are also African companies they're bidding against.

One of Africa's biggest companies is Dangote, a Nigerian company and they're opening industrial firms, fertiliser factories in Ethiopia and cement factories in Tanzania, and same again in South African companies. So you also have an emerging array of African companies and then at the micro level the same. There's a lot of African competition.

PETER CLARKE
You're listening to another Up Close podcast, produced by the University of Melbourne in Australia. We're exploring Sino-African economic and political relationships now and into the future with Dr Lauren Johnston.

Lauren, one thing I'd like to emphasise, looking at some of your charts in various writings of yours, the actual increase in investment flows, and aid flows as well but particularly in foreign direct investment flows into Africa from China, the growth is quite significant, isn't it?

LAUREN JOHNSTON
It's very significant. In perhaps 2014 for the first time ever, China's outbound investment exceeded inbound investment, and Africa is a target of a lot of this wave of Chinese investment for those demographic reasons, for those resources reasons, for building bilateral relations with old political friends, for many, many reasons, on top of which, because some of China's goods which they produce are not German quality, for example, and they're intended for low-income consumers, and there's a whole lot of rising low-income consumers in Africa, outbound Chinese investment to Africa is rising and rising as almost the number of consumers in Africa itself rises.

The numbers are quite difficult to understand and to know. There's about four different sources of investment data on China's investments in Africa and none of them match, so I don't really take the scale of any of them as given or as indicative of what the actual level is. I tend to look at the trends across countries and compare and contrast at least the trend. A lot of investment passes through third countries, Hong Kong or in Africa's case, Mauritius. You'll see a large share of Chinese investment in Africa passes through Mauritius because it has a financial and legal structure that makes that favourable, and then it goes somewhere else in Africa. So it's very, very hard to unpack the volume and so on. The levels are rising for sure,
and the trend is definitely rising, but to actually unpack it and know that the real dollar value is quite difficult.

PETER CLARKE
What have been the key obstacles, the main threats to China and its success in Africa? We mentioned the competitors, but what else has been undermining their aspirations in Africa?

LAUREN JOHNSTON
I guess the most obvious answer to that is political risks. Some of China's oil-related investments in Libya were abandoned after there was conflict in Libya. Sudan ended up becoming two countries and that's complicated what was a single country oil-based economic trade relationship. One of the issues is the environment. Obviously, China's environment suffered the consequence of China's 30 years of successful growth. A lot of people are concerned that if China's investment does lead to favourable economic development in Africa that the victim of that might be the environment.

There are both direct and indirect challenges for China environmentally in its investment in Africa. The direct challenges are to ensure that the costs of any of these projects to the environment are minimised, so the famous cases, the same standard-gauge railway in Kenya, which to get to Nairobi runs through the famous national park just outside of Nairobi. I don't know the story of why that route makes the most sense, but instead of dividing the park by the railway line, they're building the railway line like a sky train through the park. It may end up becoming a major tourist train even; who knows?

They are taking steps, and there's that balance of affordability versus environmental sustainability, because to make a project environmentally sustainable may require borrowing a lot more money for the loan to actually make the project happen. So it's that constant challenge of how do you balance debt sustainability with environmental sustainability, which is a big question.

Then China is very involved not just in transport infrastructure but energy infrastructure. They have built a lot of hydro dams in Africa; they're the main provider of hydroelectric investments in Africa, but thanks to climate change some of the rivers are drying up, in fact. The hydroelectricity can't even be generated because the water isn't sufficient. The same challenges in fact that we face anywhere, which is how do you balance economic development with environmental sustainability, and if your population is quite poor then you can understand the willingness maybe to trade some sustainability for some economic development. It's a big question and the priorities shift between countries, between projects, and then there's always that issue of debt sustainability and so on. So really, a pretty broad and difficult challenge.

PETER CLARKE
And it would be ironic if African development followed a pathway which didn't have
the chewy pollution that China has in its big cities.

LAUREN JOHNSTON
That's the beautiful dream. China is a leading investor in wind and solar, and hydro as I said, but just at the household consumption level, wind and solar are really quite advanced relative to the level of development in many of those countries. I'm quite hopeful that actually it may not be a perfect process but it will definitely not be as energy-intensive and as dirty as what China's own process was. China has made a lot of formal commitments to protect the environment of the countries it's investing in in Africa. There's a push for that from African countries also. Hopefully, both sides can realise that while also growing their economic partnership.

PETER CLARKE
Lauren, there are huge reserves of mineral resources as we've already alluded to in Africa, in quite a range of African countries. Which are those countries and how has China sought to exploit and commercialise those resources?

LAUREN JOHNSTON
From the 1990s when economic ties between China and Africa took off, it was really driven by China's demand for oil. That oil came particularly from Angola and former Sudan, but also from Gabon and to a lesser extent Nigeria. China wasn't ever a big player in Nigeria's oil market, but it's a player nonetheless. Whereas it was a dominant player in Angola, Sudan and to some extent Gabon and Equatorial Guinea. It doesn't only buy Africa's oil, it buys a lot of west Africa's very, very high-grade iron ore, particularly in Guinea, Liberia and Sierra Leone. They're increasingly active in those three countries, and now buy quite a lot of iron ore from them, but not actually at this point anywhere near as much as the supply of iron ore those countries have.

Then Zambia is really a story of the copper industry, and Congo is a story of rare earths and coltan. That's been a particularly contentious relationship politically, the care of governance issues in Congo and use of child labour in the mining regions, the uncertainty of the institutional and the physical environment. There was certainly in around 2007 massive criticism of a loan given to Congo by China, you know, where did the money go and are there proper institutions to protect against child labour and so on.

PETER CLARKE
Here in Australia, of course, our iron ore we stick on the trains to the ships to China, but is there potentially a very large steel industry, under Chinese auspices I guess, Lauren, emerging in Africa, with smelters etcetera?

LAUREN JOHNSTON
Yes. In fact, let's start in China. You have some of China's largest cities, Beijing and Tianjin, covered under smoke and some of that smoke comes from steel mills in Hebei Province. Just recently, China has announced a policy to turn Hebei Province basically into a massive new innovation zone just outside of Beijing. One of the reasons for doing that is because the demand for some of the old industries,
including steel, in Hebei has really fallen away.

But there is, on the other hand, a massive demand for steel coming up in Africa for this growing population to build the infrastructure, to build the train lines, all the things that are now already largely built in China and where the population is now ageing. I think in 2011 an agreement was signed between one of the big Hebei iron ore and steel companies and a region in South Africa, and so some of the capacity of Hebei's steel industry has already begun being moved to South Africa.

Then at the more nascent level, China has got an agreement to build in Kenya and in Tanzania, and then more nascent again but what could be a much bigger story given the available supply of iron ore, is what is talked of as being possible in countries like Liberia and Sierra Leone, which at the moment don't have the electricity supply to have a steel industry. This is an issue; first you have to actually have a reliable source of industrial-grade electricity supply, and once that is constructed then yeah, potentially China could massively scale up steel construction factories in west Africa also.

PETER CLARKE
What is the Forum for China-Africa Cooperation and how does that organisation play into the ongoing Sino-African relationships, the political ones and the economic ones?

LAUREN JOHNSTON
The Forum on China-Africa Cooperation, which is commonly known as FOCAC, was launched in the year 2000 by China in partnership with most countries in all of Africa, so not just sub-Saharan Africa, excluding countries recognising Taiwan. So all countries recognising Beijing were invited to be part of this forum. It wasn't explicitly a Chinese idea; there were pre-existing forums. There was one between Japan and Africa. There was one between Korea and Africa. China I guess brought more prominence and scale to these forums, and China did something different which those countries hadn't ever done, which was agree to host this forum, alternate it between China and an African country.

It was only last year in fact that Japan hosted its first-ever equivalent in an African country, and it happened to be in Kenya, whereas China did that from the beginning. That was one way China differentiated FOCAC from the pre-existing forums. What purpose does FOCAC serve in the China-Africa relationship? I guess it serves as a kind of Davos of the China-Africa relationship, you have a lot of commercial interests come together with political interests, come together with aid interests, and to progress the relationship on a very intensive basis for a couple of days.

It's an intergovernmental platform, much like an Asia-Pacific Economic Cooperation working group where issues on trade and investment between these big triennial meetings or annual meetings are progressed by bureaucrats. FOCAC has the same; it has environmental working groups, economic working groups, investment working groups. This is really a platform via which Chinese and African government officials
can build ties but very pragmatically-themed ties on key issues of development and health and investment and trade. So that's been ongoing and intensifying for the last 16, 17 years.

PETER CLARKE
Finally, Lauren, I'm going to ask you to be speculative, a little bit of crystal ball gazing here. Drawing some of these threads together, the historical threads but particularly the economic threads, let's choose 10 years, a decade that stretches in front of us. How do you see things going? What are the trend lines? Where will that Chinese-African set of relationships finish up in the next 10 years, do you believe?

LAUREN JOHNSTON
I think China's investment in infrastructure in east Africa is going to open up a lot more economic activity and a lot more opportunity for companies and growth in east Africa, in particular Kenya and Tanzania. I guess if I was in the tourism sector or the agri-industrial sector I'd really be looking at grasping opportunities now to be on the frontier of that growth. I think there'll be a lot of potential and a lot of new opportunity emerging directly and indirectly as a consequence of China's investments in east Africa.

I think Kenya and Tanzania will become just almost normal economies. Probably 10 years forward we'll think of these approaching the way we see Indonesia today or Malaysia, or they'll just become normal emerging markets. So will some other African economies, but those two are really on the frontier. Similarly, you may be buying your clothes and they may have a made-in-Ethiopia label in 10 years' time rather than a made-in-China or in-Vietnam label.

PETER CLARKE
This is a fascinating area, greatly underreported as I said right at the beginning of our conversation. Thank you so much for giving us at least a glimpse of what's happening between China and Africa, in the past and in the future. Lauren, thank you.

LAUREN JOHNSTON
Thank you, Peter.

PETER CLARKE
Our guest today, Dr Lauren Johnston, based at the Melbourne Institute of Applied Economic and Social Research here at the University of Melbourne. You'll find more information about Lauren's extensive research and writing plus other relevant links on the Up Close website. Up Close is a production of the University of Melbourne, Australia. This episode was recorded on 24 April 2017. It was produced by Kelvin Param with audio engineering by Gavin Neubauer. I'm Peter Clarke, thanks for listening and I do hope you can join us again soon. Bye for now.

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