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# Chinese Development Aid to Africa

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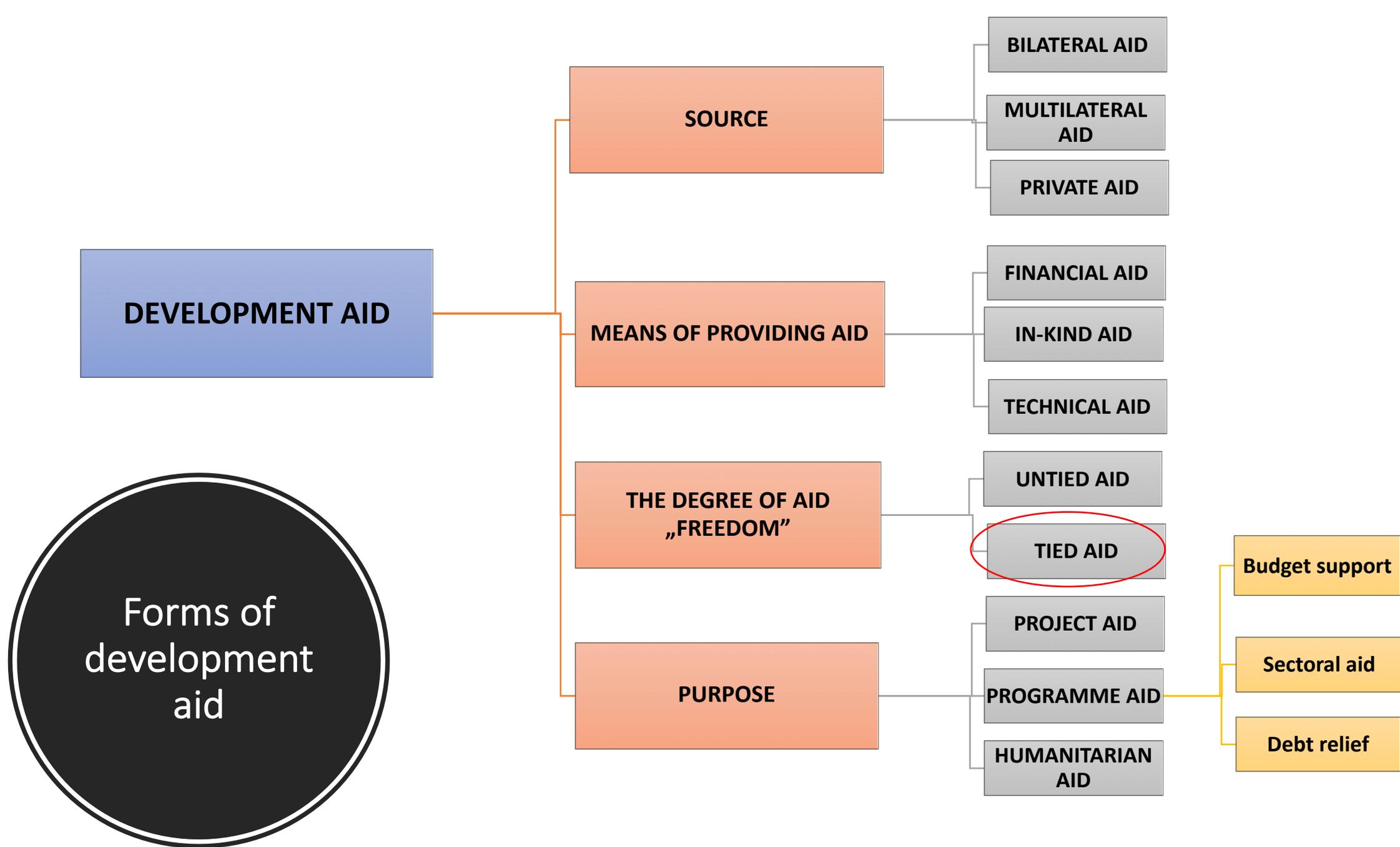
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# 1. What is development aid?

- Official development assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries.
- military aid and aid for purely commercial purposes are excluded.
- **CONDITIONAL VS NON-CONDITIONAL AID**





# Donors

## Donors of development aid

country

Development Assistance Committee- DAC OECD

DAC donors

Other donors

supranational

International Financial Institutions

The World Bank

The International Monetary Fund

United Nations

European Commission

Regional Banks

New funds, programmes, multilateral agencies

Non-government

NGO

Private funds



# China's Foreign Aid System

- MOFCOM – The **Ministry of Commerce** of the People's Republic of China (department: Western Asian & African Affairs - **Director-General: Dai Bing** ) - leading coordinating agency of China's aid program
  - White Paper on Foreign Aid
  - (**Chexim - China Exim Bank**) - **The Export–Import Bank of China** -
  - **China International Development Cooperation Agency (2018) (CIDCA)** – bilateral aid agency; falls directly under the State Council; aims to promote studies and policy recommendations
  - China-Africa Development Fund
  - China-Africa Industrial Cooperation Fund
-



# FOCAC - The Forum on China–Africa Cooperation

- China, **53 African countries** that have established diplomatic relations with China and the Commission of the African Union.
  - **Objective:** „Equal consultation, enhancing understanding, expanding consensus, strengthening friendship and promoting cooperation.”
  - **three levels of consultation mechanisms**
  - The Ministerial Conference is held every three years; the Senior Officials Meeting also; consultations between the African Diplomatic Corps in China and the Secretariat of the Chinese Follow-up Committee at least twice a year;
  - **various sub-forums** (e.g. Ministerial Forum on China-Africa Health Cooperation)
-



# the FOCAC Beijing Action Plan (2019-2021)

„Growing interconnection and inter-dependence among countries has made collaboration the only viable way to effectively address terrorism, conflicts, wealth gaps, poverty, climate change, land degradation, food insecurity, major communicable diseases, protectionism and other global challenges.”

They agreed to:

- ✓ strengthen collective dialogue
  - ✓ enhance traditional friendship
  - ✓ deepen practical cooperation
  - ✓ work together toward an even stronger China-Africa community with a shared future.
- efforts are made to develop inclusive, accessible and reasonably priced infrastructure that delivers extensive benefits
-

# Evolution of China's Aid to Africa

**Phase I (1950-1974):** the phase of political aid on ideology exportation.

- 1956 China's first Premier Zhou Enlai called "mutual benefit" as the guiding principle of Chinese aid and economic cooperation (mutual benefit and mutual respect for national sovereignty)
- 1956, 20 million Swiss Franc in cash as financial grant to the Egypt government, the Suez Canal.
- 1960, Guinea to build match plant and cigarette plant, which was the first development project from China in the SSA area.
- 1961 and early 1962, China sent seven agricultural specialists to Mali (experiments on sugarcane and tea).
- 1965, the investigation team sent to Africa to assess the feasibility of building the Tanzania-Zambia railway;

**Phase II (1974-1990):** adjustment and transformation phase

1983 - Premier Zhao Ziyang - Tanzania announced the "Four Principles of Sino–African Economic and Technical Cooperation." (mutual benefit, practical results, diversity in form, and common development)

**Phase III (1991-now):** the phase of financial aid and technical assistance with integrated-objectives.

- Japanese aid model (link between aid, trade and investment)
- 1994 - Grand Strategy of Economy and Trade"

January 15, 1964

## The Chinese Government's Eight Principles for Economic Aid and Technical Assistance to Other Countries

1. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries as equals.

2. „the Chinese Government strictly respects the sovereignty of the recipient countries”,

3. „China provides economic aid in the form of interest-free or low-interest loans”

4. „the purpose of the Chinese Government is not to make the recipient countries dependent on China”

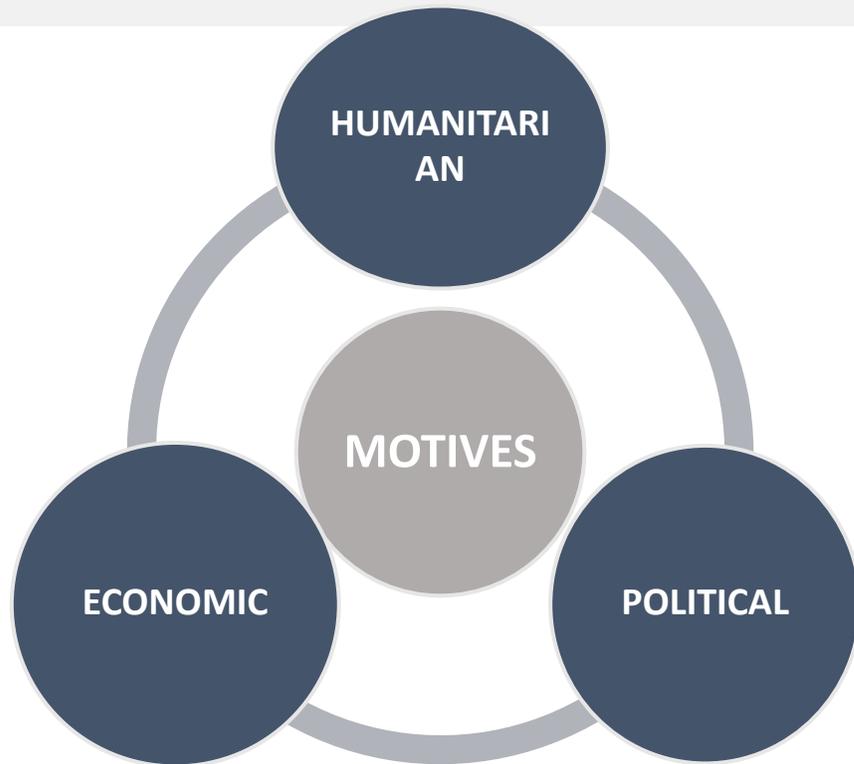
5. „to help the recipient countries build projects which require less investment while yielding quicker results.

6. „provides the best-quality equipment and material of its own manufacture at international market prices”.

7. „technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique”.

8. „The experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country”.

# Motives of development aid



## HUMANITARIAN:

June 2019, CIDCA announced the delivery of 6,500 tonnes of food aid to Somalia and Southern Sudan.

## ECONOMIC:

- building a favorable investment environment for investment transactions and services from the donor country.

## POLITICAL:

- voting behaviour in the United Nations
- securing the political support in case of a conflict

China is often referred to as an 'emerging' or 'new' donor



# POLITICAL INTEREST

- the Chinese government uses aid as a foreign policy tool
  - Aid should help create favorable international environment for China's development
  - support the country's rise to global power status
  - that aid money supports political allies, punishes enemies, helps build coalitions, and is aimed at improving public opinion in recipient countries
  - „consolidating friendly relations” - *White Paper on Foreign Aid*
  - newly decolonized Sub-Saharan Africa (1956) and received diplomatic recognition in exchange
-



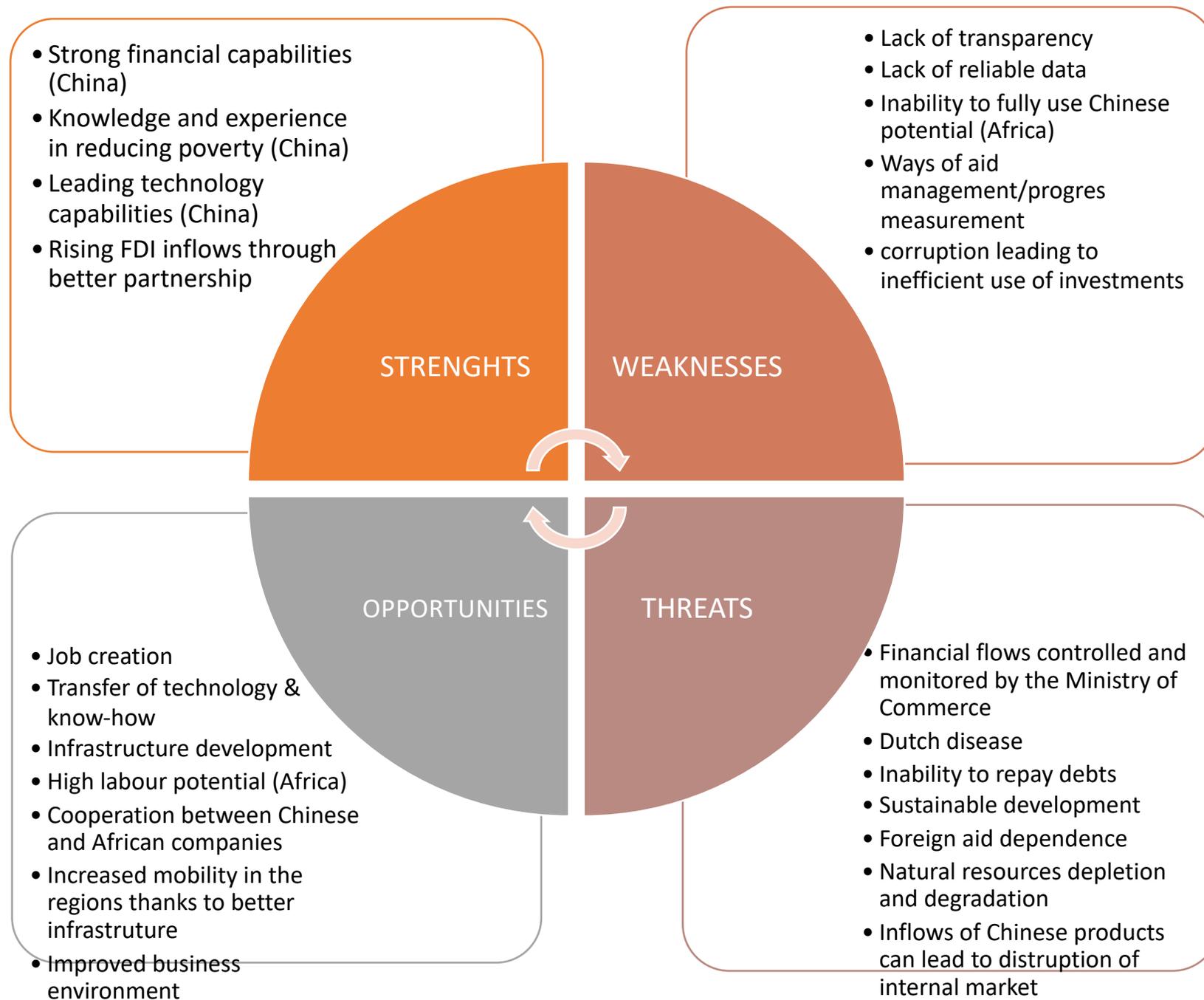
# ECONOMIC INTEREST

- to promote trade with developing countries
  - loans are extended in exchange for natural resources
  - “comprehensive cooperation” between China and Africa (joint ventures and concessional loans); served as “door-openers,” companies could operate in a relatively risk-free environment, hence introduce their products to developing countries
  - 1999 - “Going Out” (*zou chuqu*) policy
  - China’s “growth miracle” -> China is the world’s largest importer of petroleum; Relying on imports for around one third of its supply, the search for energy security became a top issue on Beijing’s agenda.
  - Angola Model - resourced-based loans
-



# HUMANITARIAN INTEREST

- help countries reduce poverty and improve people's livelihoods
  - aid given as emergency response to natural disasters, post-disaster reconstruction, and capacity building for disaster prevention and relief.
  - June 2019, CIDCA announced the delivery of 6,500 tonnes of food aid to Somalia and Southern Sudan.
  - Chinese Medical Teams (CMT) are currently working in 42 African countries
  - 2013-2016 - Ebola epidemic - the Chinese government dispatched Chinese military medical teams to Sierra Leone and Liberia where they assisted with disease prevention and control, provided direct clinical care and health training
  - 2020 - COVID-19 - As of April 2, Chinese medical teams in Africa have conducted 250 training and health activities regarding epidemic prevention and control, benefiting over 10,000 people.
-





# Main facts about Chinese aid

- Until 1995, zero interest rate subsidies and loans were the main instruments of Chinese ODA.
  - China until 2010 primarily provided assistance in the form of grants and interest-free loans.
  - Since 2010, these are primarily preferential loans.
  - the use of Chinese goods (minimum 50 percent) and services (i.e. Chinese construction companies as contractors) can be financed from loans.
  - China Eximbank also offers short-term preferential loans for Chinese exporters and long-term preferential loans for buyers of Chinese exports.
  - 10,000 Chinese-owned firms operating in Africa today, about a third of whom are involved in manufacturing
  - China-Africa trade has grown 40 times over the last 20 years and currently exceeds \$200 billion.
  - Non-conditional aid
-

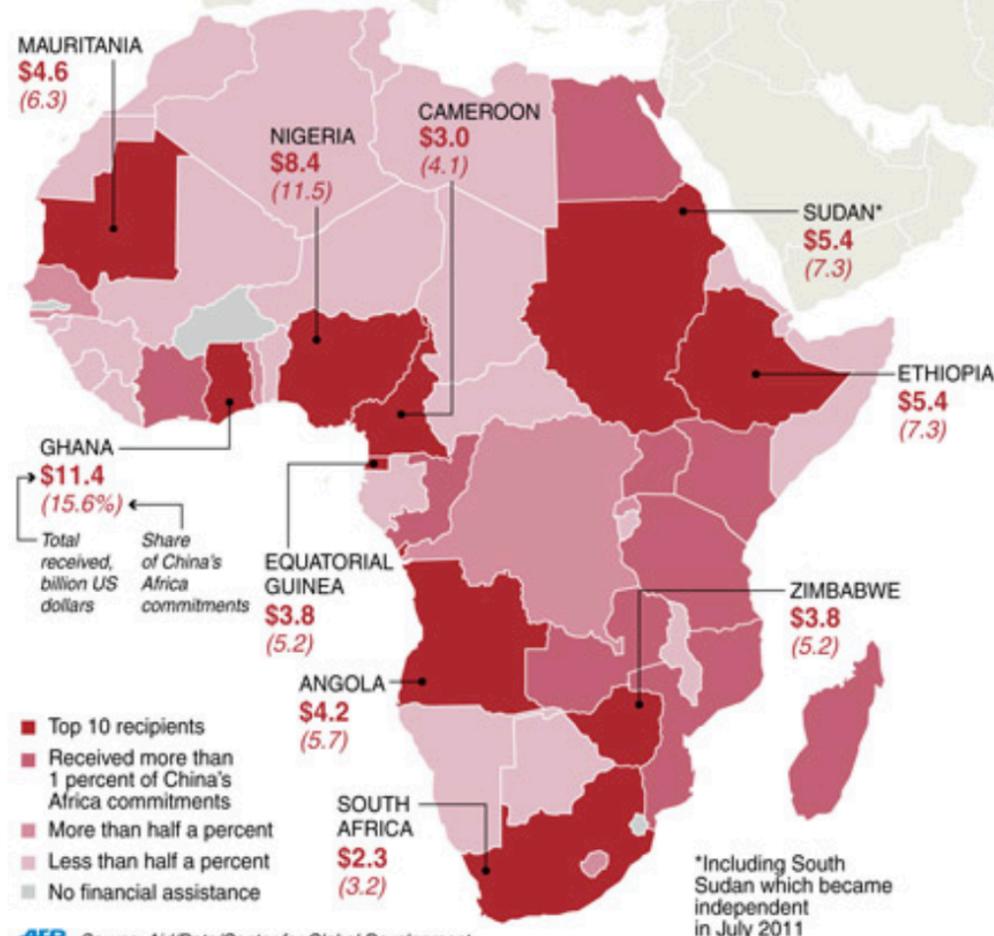
# Chinese presence in Africa

- 2000-2014 period, more than 4,300 projects in 140 countries and territories
- The total financial value of these projects exceeded US\$350 billion
- less than ¼ of China's finance could be categorized as official development assistance (ODA) (in case of USE -93% is ODA)

## China assistance to Africa

During the last decade, China has been investing heavily in African natural resources, developing mines, oil wells and running related construction companies

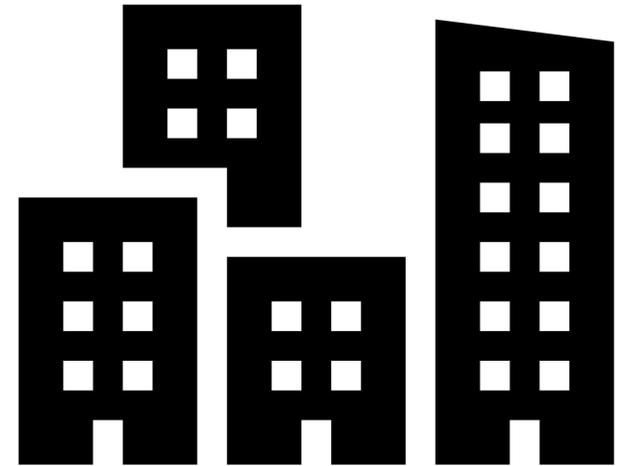
**Top recipients of Chinese finance to Africa 2000-2011**  
Survey of media reports on 1,673 Chinese-backed projects



- Billion-dollar projects**
- Ghana, 2010**  
Concessionary loan  
**\$5.49 billion**
  - Nigeria, 2006**  
Infrastructure in exchange for preferential oil right bidding  
**5.38**
  - Mauritania, 2006**  
Oil exploration, sewage systems, iron mine, road  
**4.04**
  - Ghana, 2009**  
Loan for oil and road projects  
**3.0**
  - Equatorial Guinea, 2006**  
Oil-backed loan  
**2.69**
  - Ethiopia, 2009**  
Loan for dam construction  
**2.25**
  - South Africa, 2011**  
Financial cooperation agreement  
**2.25**
  - Angola, 2004**  
National Rehabilitation Project  
**1.51**
  - Madagascar, 2008**  
Hydroelectric construction  
**1.42**
  - Sudan, 2007**  
Railway construction  
**1.38**
  - Angola, 2009**  
Agriculture development  
**1.20**
  - Zimbabwe, 2004**  
Powerplant construction  
**1.01**

# Angola Model

- Resource for infrastructure
- Angola is the second largest oil producer in Africa.
- The growth of Chinese investments in Angola is very high. According to estimates of the analytical company McKinsey & Company, between 2004 and 2014 it was on average 89% per year.
- The majority of employees in Chinese companies operating in Angola are Angolans, which results from the fact that the employment of Chinese employees is five times more expensive than local employees
- between 2008-2018, China has renovated and built a total of 2,800 kilometers of railway lines, 20,000 kilometers of roads, over 100,000 social housing, as well as over 100 schools and 50 hospitals for Angola.
- Sinohydro, which has invested USD 900 million in 30 projects in Angola, including hydropower, hospitals, schools and public transport. over 8,200 local employees were trained and employed
- \$ 10 billion worth of Kilamba Kiaxi, a newly built satellite city. After completing the housing program, covering 200,000 apartments, together with 41 schools and kindergartens, 246 stores, a power station, etc., this new city remained almost uninhabited for many years.





# Agenda 2063: The Africa We Want

- 50<sup>th</sup> Anniversary Solemn Declaration signed during the Golden Jubilee celebrations of the formation of the OAU /AU in May 2013.
  - Vision of „***An integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international arena***”
  - achieve this vision within a 50 year period from 2013 to 2063.
    - A high-speed train network connecting all African capitals and commercial centres
    - The formulation of a strategy for transforming the African economy from a supplier of raw materials to one that actively uses its own resources
    - The establishment of the African Continental Free Trade Area
-

# Chinese companies in Africa



The top 5 countries are Algeria, Angola, Kenya, Nigeria, and Ethiopia. They account for 50% of all Chinese companies' 2018 construction project gross annual revenues in Africa.

10,000 Chinese-owned firms operating in Africa today, about a third of whom are involved in manufacturing

In 2018, the gross annual revenues of Chinese companies' engineering and construction projects in Africa totaled US\$48.84 billion, a 0.5% decrease from 2017.

# Chinese manufacturing firms in Africa



Chinese garment and footwear firms see rising labor costs as their main challenge.



„if only 1 % of China’s production of apparel was shifted to Africa “it would boost African production and exports of apparel by 47 %. A 5 % shift of Chinese export-related investments in the industry could translate into \$5.4 billion in additional exports—a 233% increase”



Ethiopia:

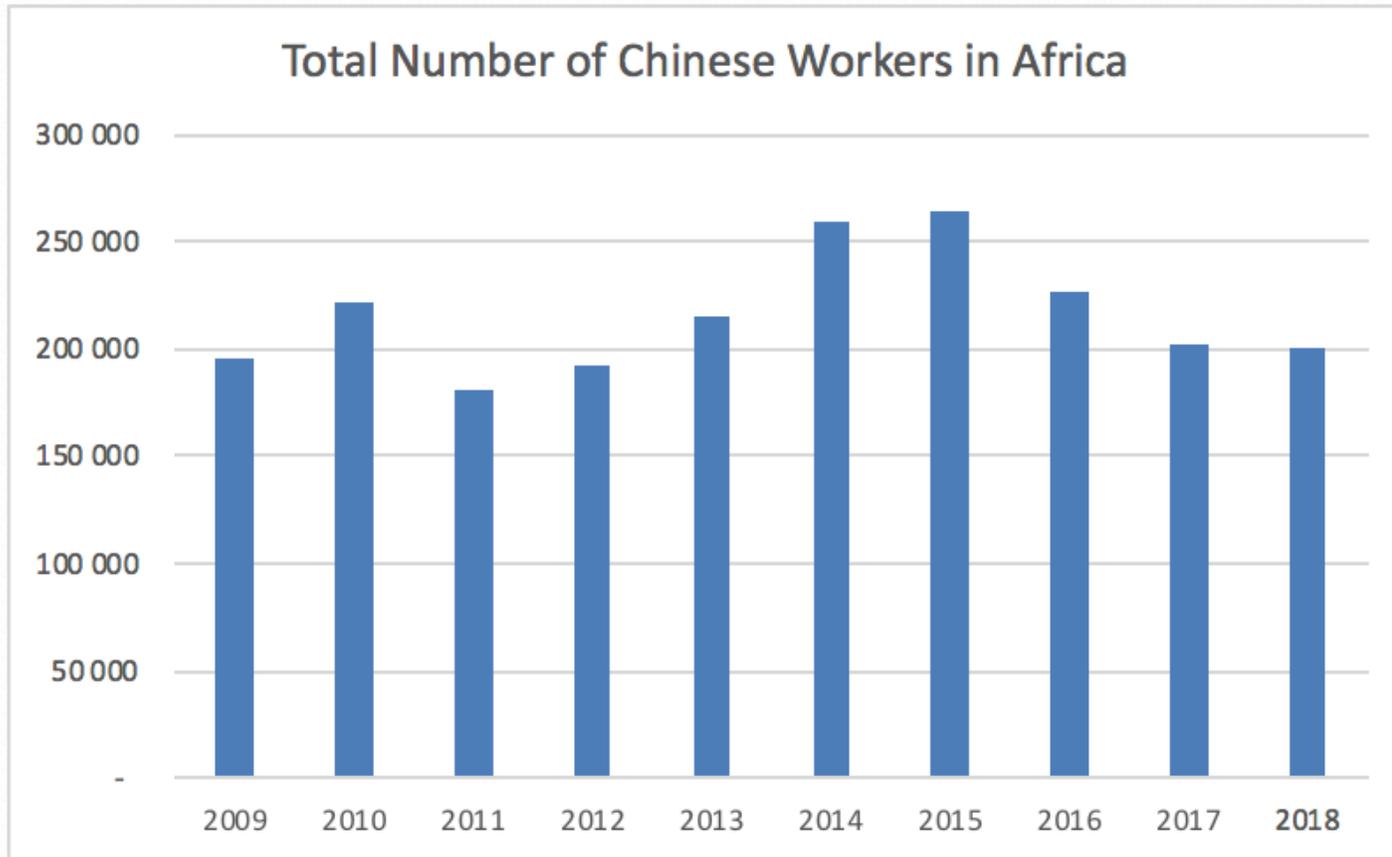


industrial parks development program



By 2020, Ethiopia intends to have built 30 industrial parks (28,000 jobs have been created so far.)

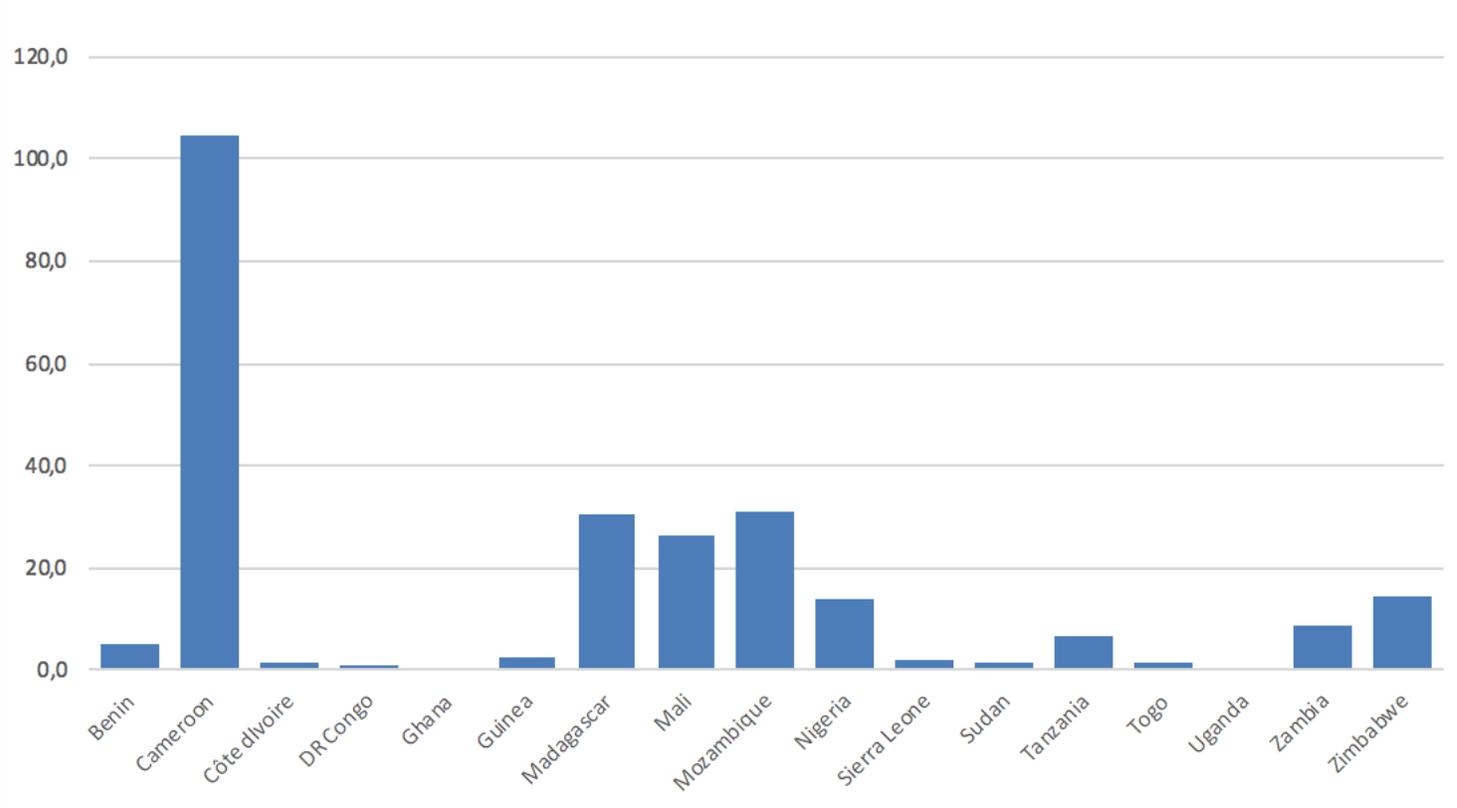
# Chinese workers in Africa



- The number of Chinese workers in Africa by the end of 2018 was 201,057, according to official Chinese sources.
- In 2018, the top 5 countries with Chinese workers are Algeria, Angola, Nigeria, Kenya, and Ethiopia. They accounted for 58% of all Chinese workers in Africa at the end of 2018; Algeria alone accounts for 30%.
- From 2017 to 2018, the total number of Chinese workers in Africa has declined by 1,632 workers. This continues the trend of declining numbers of Chinese workers in Africa, down from a peak of 263,659 in 2015.

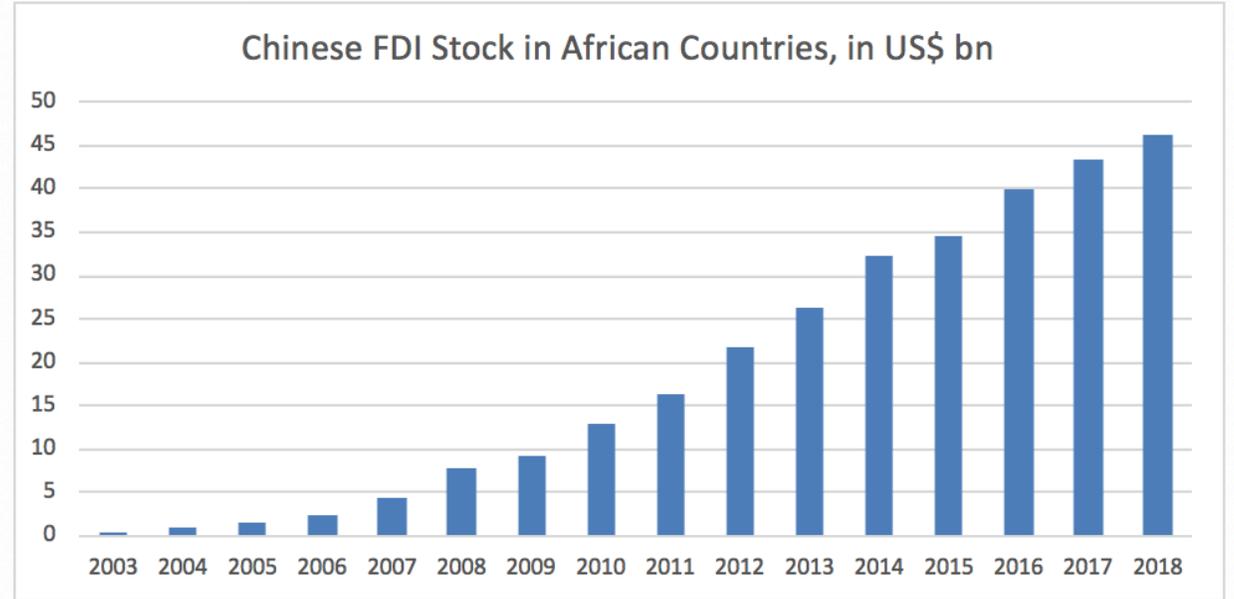
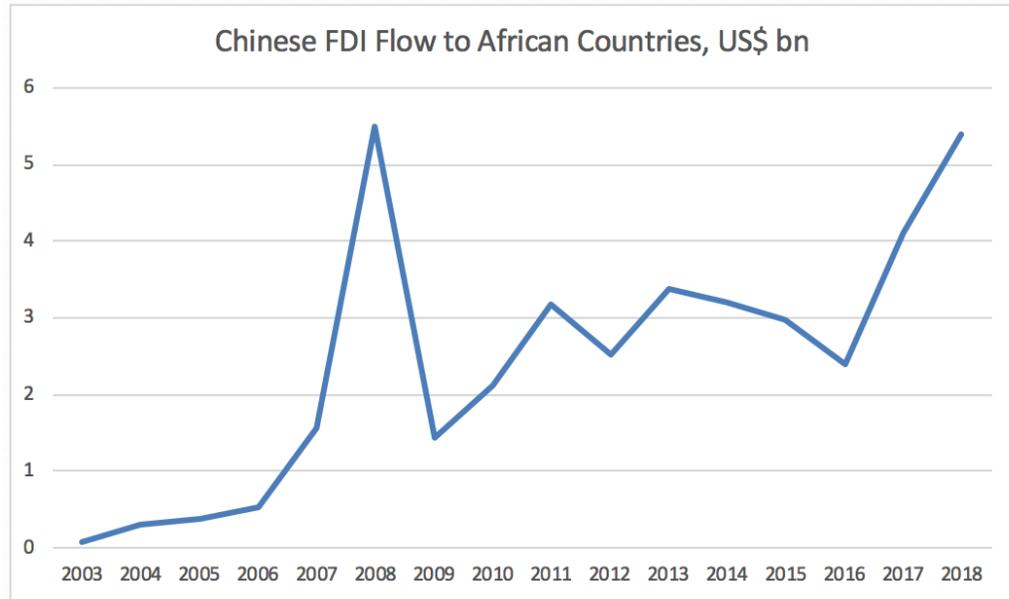
# Chinese agriculture investment in Africa

Actual Land Acquired by Chinese companies in Africa, thousands of hectares, 1987-2016

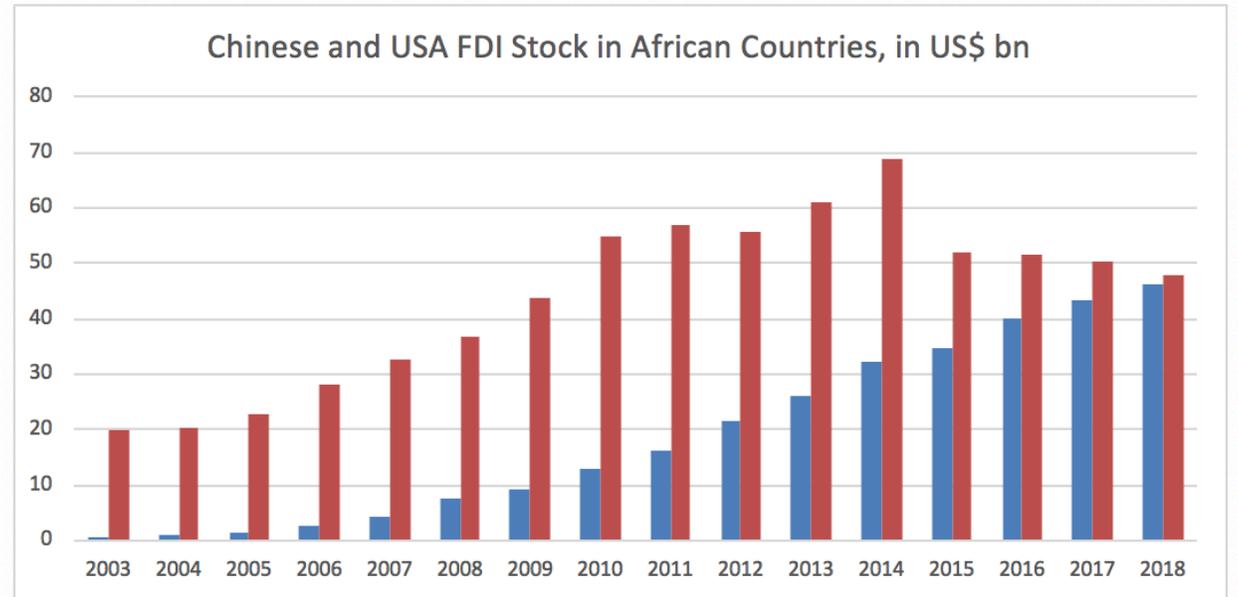
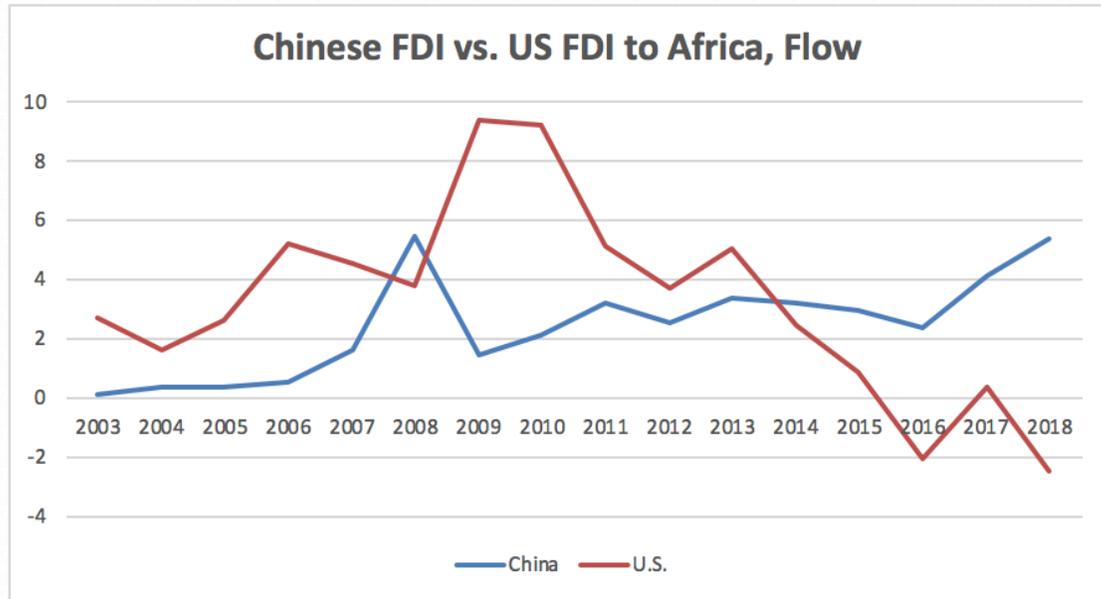


- Out of over 6 million hectares of alleged Chinese land acquisitions, CARI found that only 252,901 hectares of land have actually been acquired.
- technical reinforcement programmes for rice production in Guinea Bissau
- Cameroon alone accounts for 41% of all lands actually acquired: driven by two large purchases of existing rubber plantations (over 40,000 hectares each) in 2008 and 2010.
- Chinese land acquisitions have slowed down in recent years.

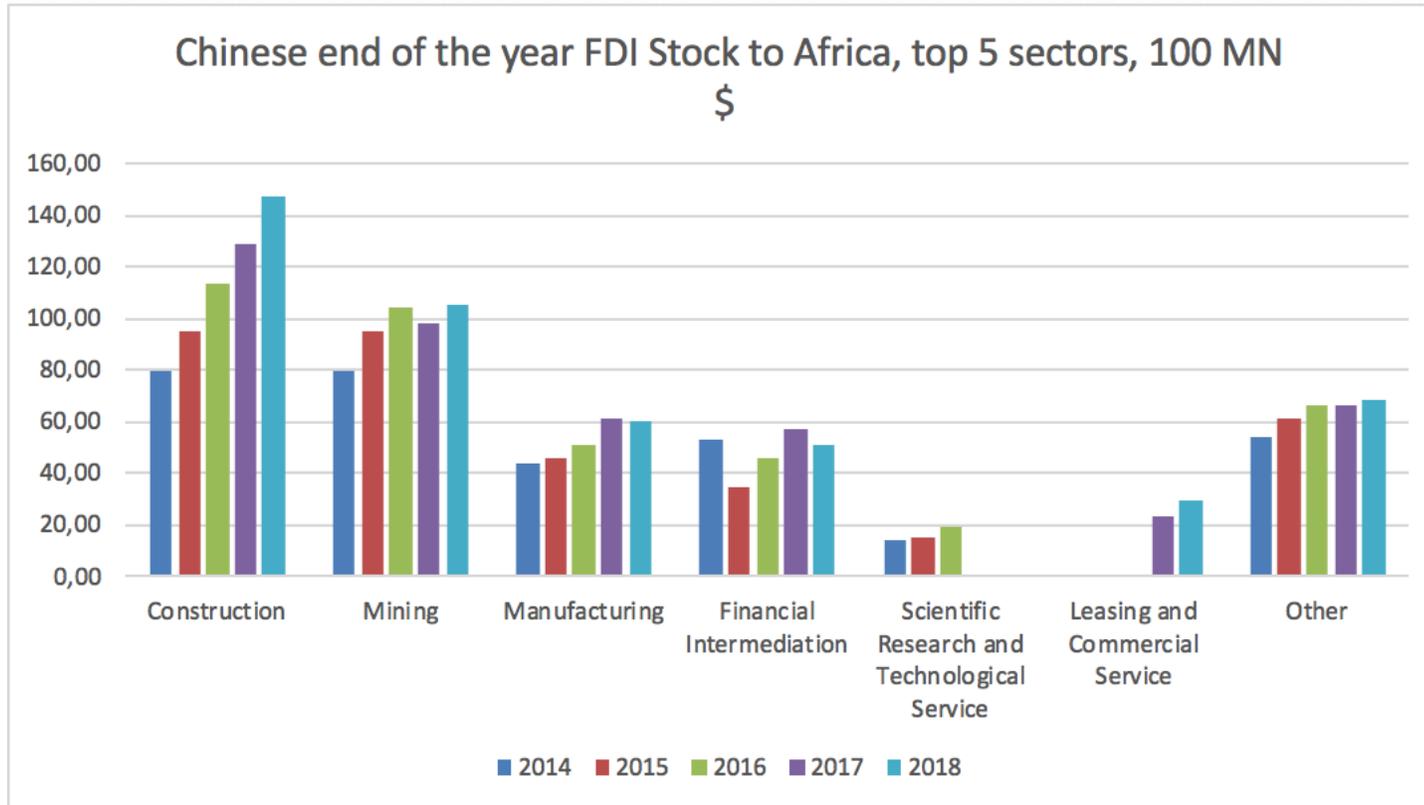
# Chinese FDI to Africa



# China vs US in Africa

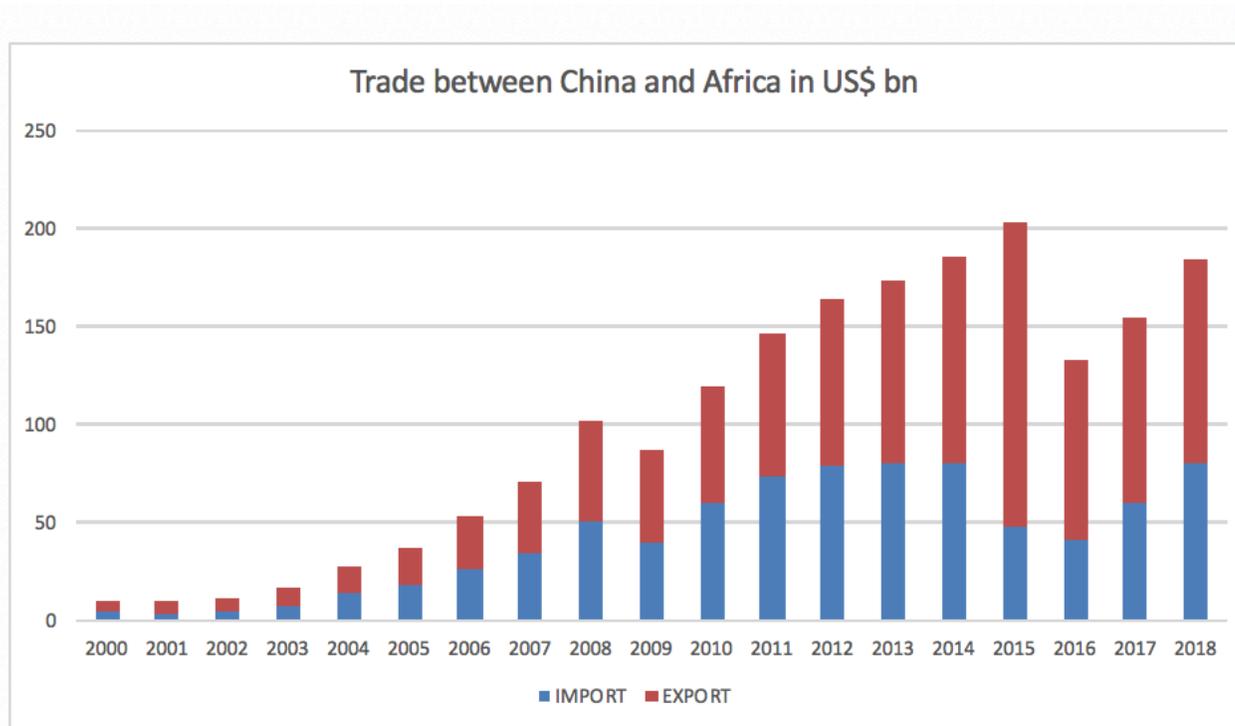


# Top sectors in Chinese FDI to Africa



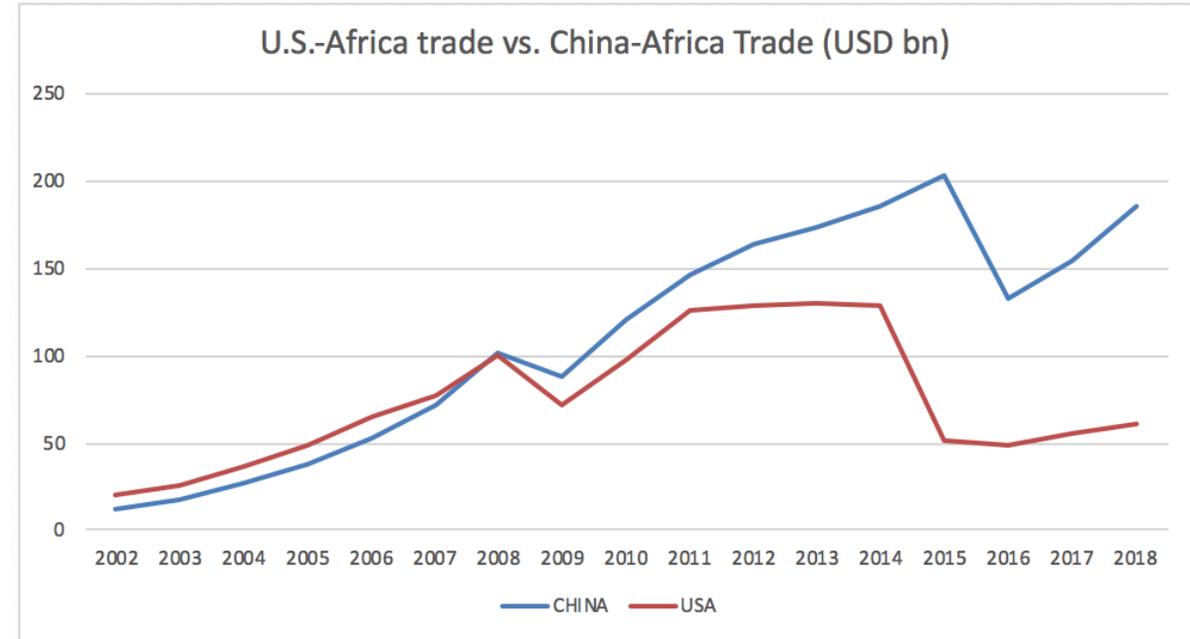
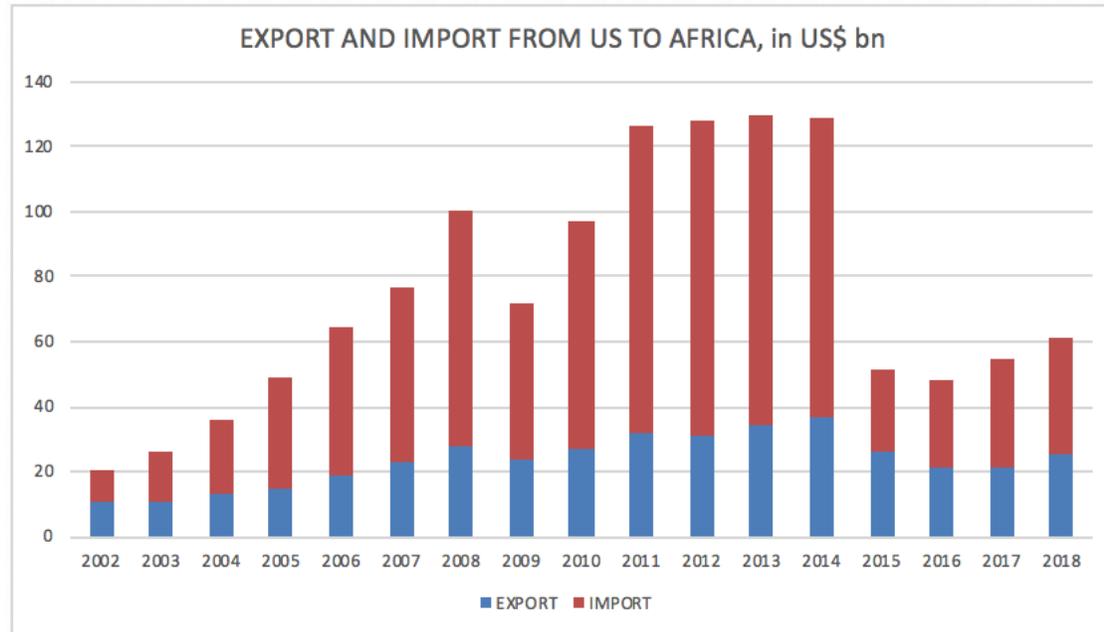
- In manufacturing, it is estimated that 12 percent of Africa's industrial production—valued at some \$500 billion a year in total—is already handled by Chinese firms.
- In infrastructure, Chinese firms' dominance is even more pronounced, and they claim nearly 50 percent of Africa's internationally contracted construction market.

# China-Africa Trade

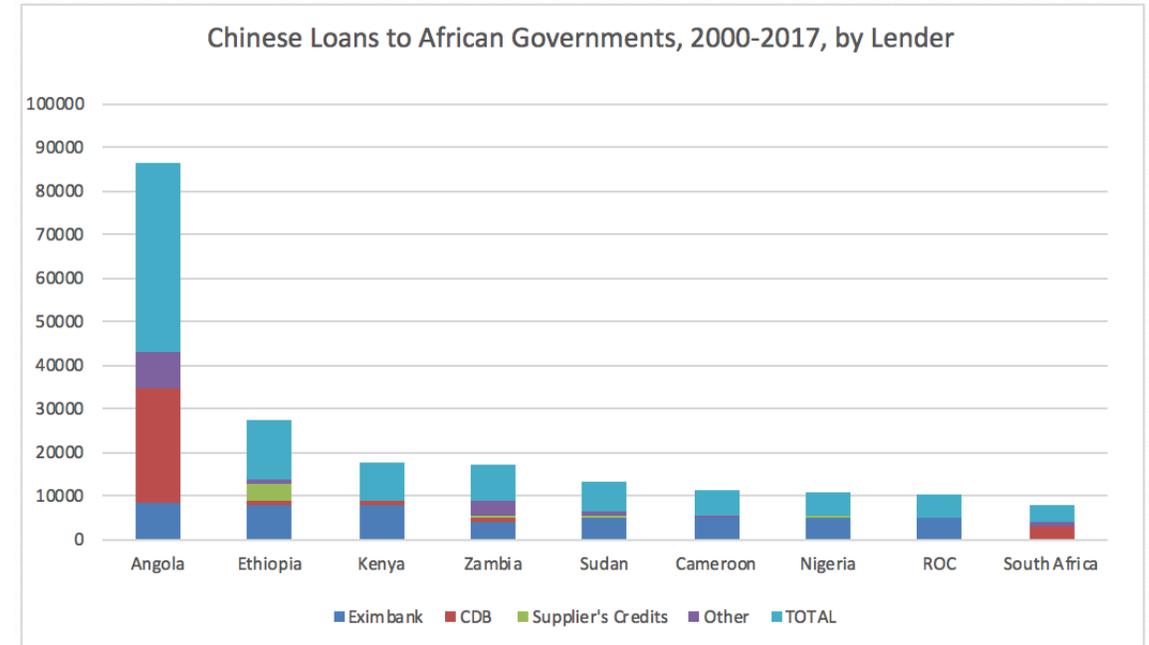
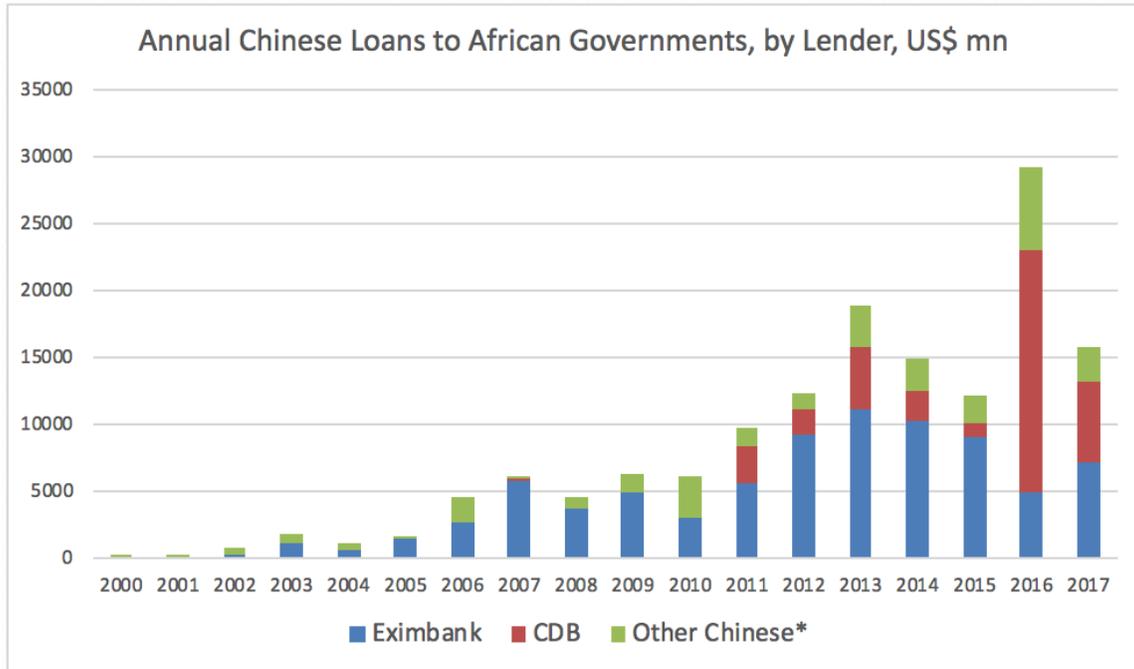


- The value of China-Africa trade in 2018 was \$185 bn, up from \$155 bn in 2017.
- China-Africa trade has grown 40 times over the last 20 years and currently exceeds \$200 billion.
- In 2018, the largest exporter to China from Africa was Angola, followed by South Africa and The Republic of Congo.
- In 2018, South Africa was the largest buyer of Chinese goods, followed by Nigeria and Egypt.

# China vs US in Africa

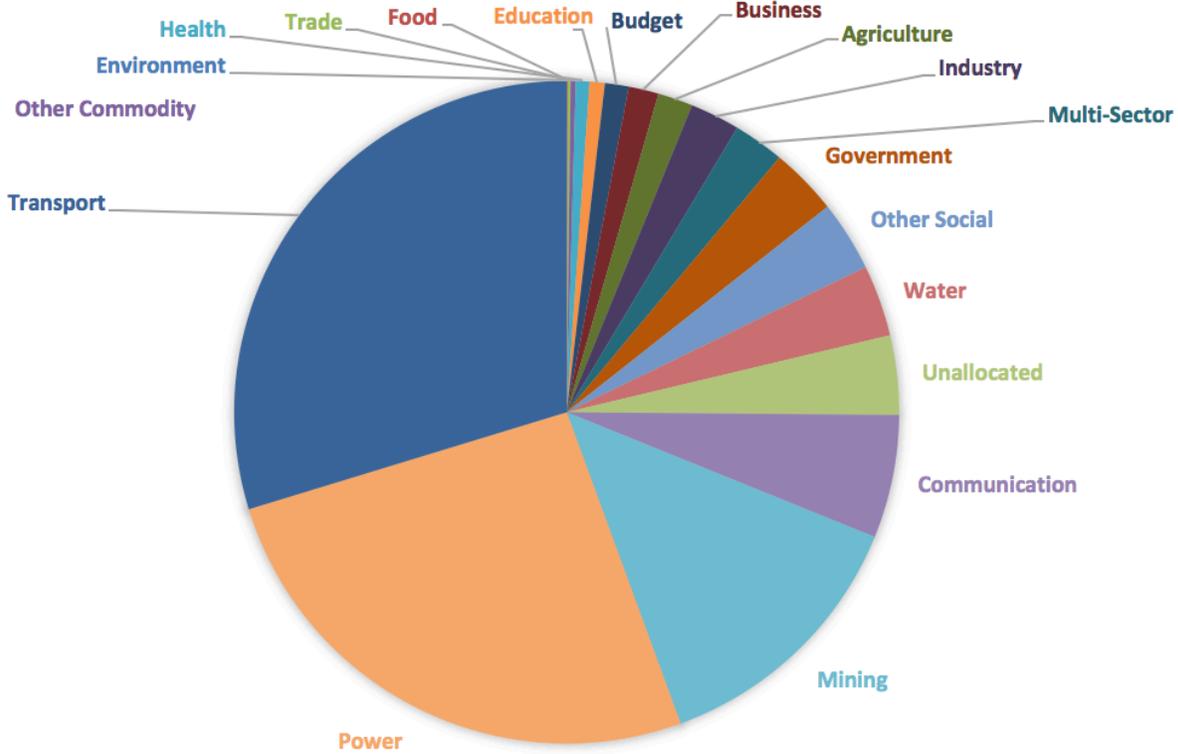


# Chinese Loans

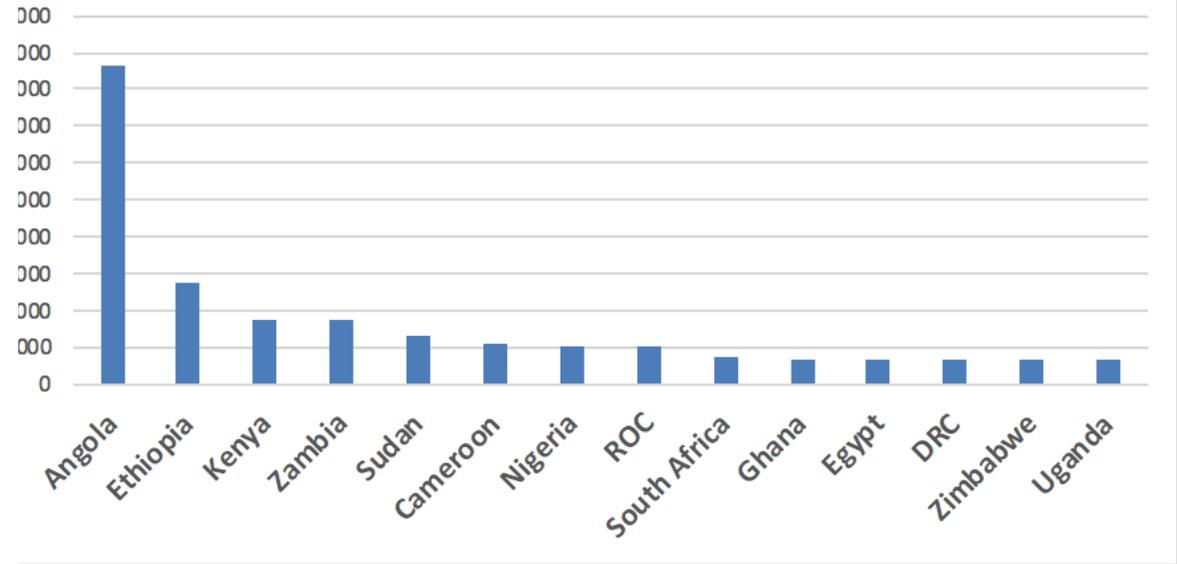


# Chinese Loans

ANNUAL CHINESE LOANS TO AFRICA IN 2017, BY SECTOR, US\$ MN



Country Annual Loan Value from 2000 to 2017



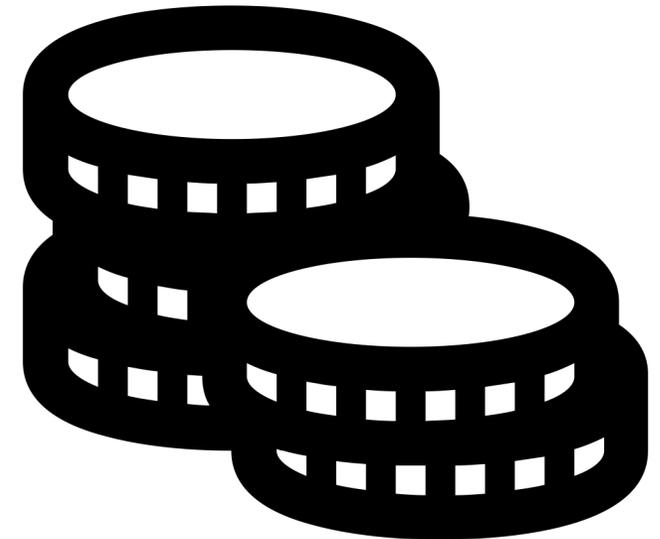
# African Foreign Debt

As of October 2018

- African government external debt payments have doubled in two years, from an average of 5.9% of government revenue in 2015 to 11.8% in 2017
- 20% of African government external debt is owed to China
- 17% of African government external interest payments are made to China
- In contrast, 32% of African government external debt is owed to private lenders, and 35% to multilateral institutions such as the World Bank
- 55% of external interest payments are to private creditors

REASON:

- ✓ increases in lending since 2008 from multiple lenders
- ✓ falls in commodity prices in mid-2014
- ✓ rising US dollar interest rates and the value of the US dollar in recent years.



# China in the Energy sector in Africa

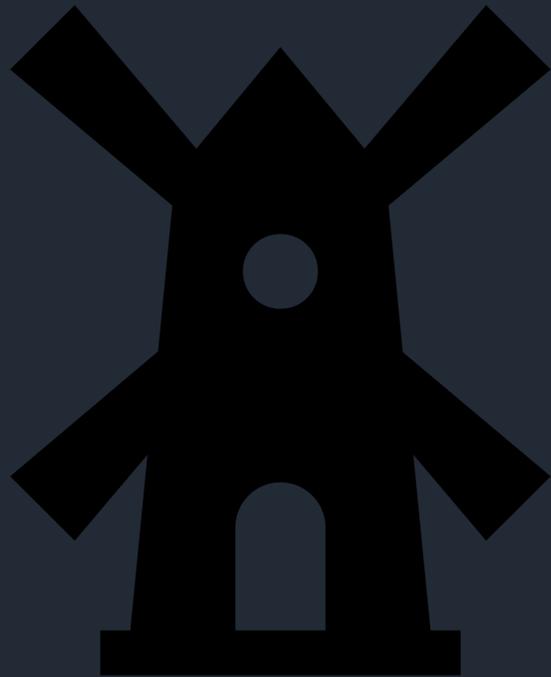
unreliability of electricity supply –  
electricity needed for production and  
clean cooking.

In 2018 still nearly half of Africans (600  
million people) did not have access to  
electricity and 70% of the population  
lacked access to clean cooking (which  
means biomass is still widely used).

In Sub-Saharan Africa as much as 80%  
companies suffered frequent electricity  
disruptions generating economic losses.



# Renewable Energy in Africa



**HYDROPOWER:** Africa has the highest percentage of untapped technical hydropower potential in the world, with only 11% utilized. ***Chinese engagement:*** In terms of capacity, Chinese contractors are Involved in 52% of all hydropower projects In Africa.

Examples: the Bui hydroelectric dam in Ghana (approx. cost of US\$622 million)

**WIND:** The wind energy market in Africa is perceived as lagging behind other clean power technologies (it is making up only 2% of the market)

***Chinese engagement:*** wind farm in Ethiopia - one-hundred 70-meter-tall turbines with a total capacity of 153MW.

**SOLAR:** Africa has the richest solar resources on the planet; however Africa installed only 5 gigawatts of solar photovoltaics (PV), which is less than 1% of global capacity

***Chinese engagement:*** one of the largest photovoltaic electricity stations in Africa, 50 MW solar power farm located in Garissa, designed and built by the EPC contractor China Jiangxi Corporation for International Economic and Technical Co-operation (CJIC), together with Kenya's Rural Energy Authority (REA).

# Why does infrastructure matter?

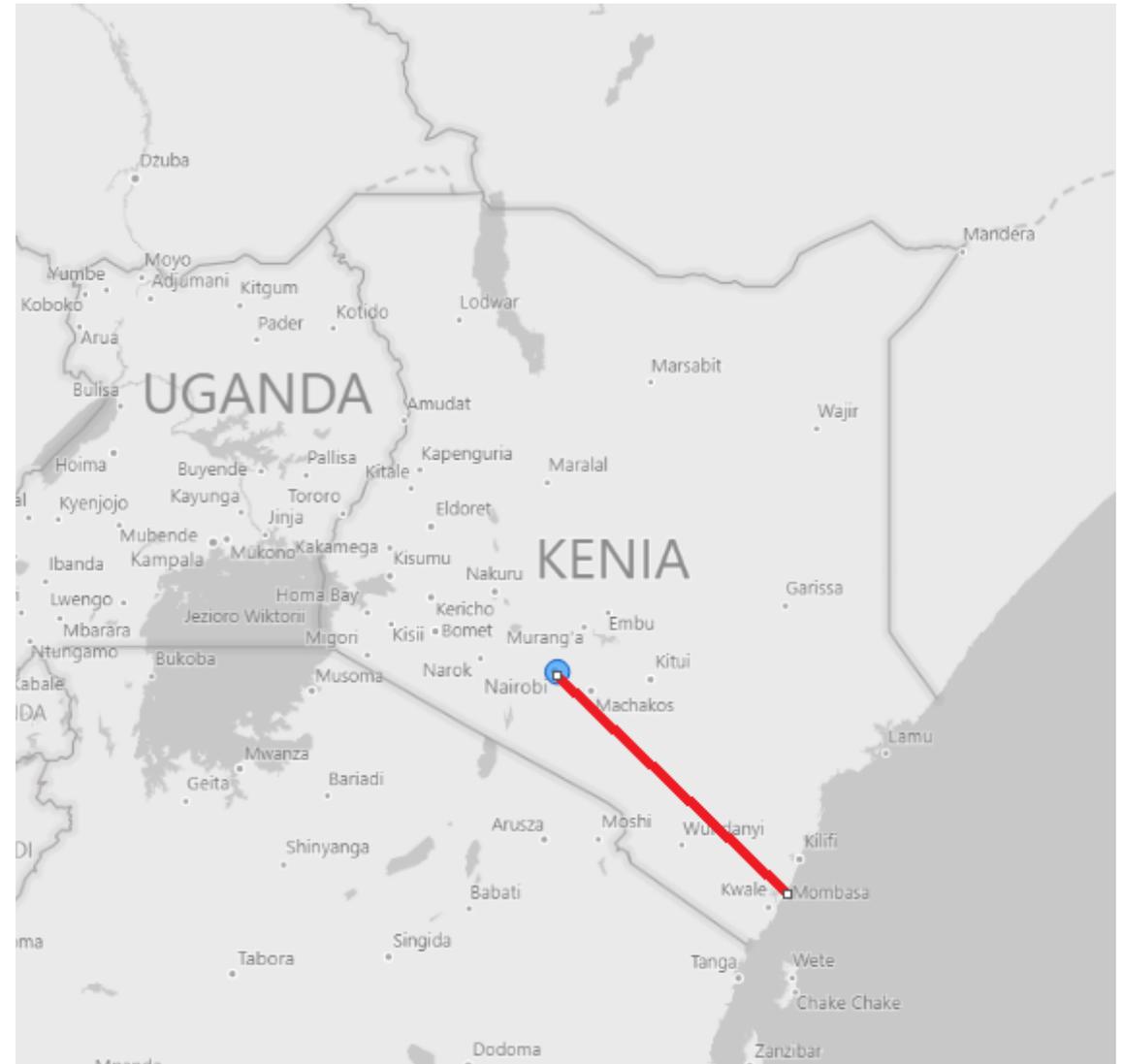
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- On average, a 1% increase in infrastructure resources translates into a 1% increase in GDP (World Development Report 1994: Infrastructure for Development)
- Companies in Africa - "inflated" trade costs. 219% - that is, if the product is manufactured at a cost of 1 USD, then delivering it to a consumer in a second country costs 2.19 USD.
- The cost of misused infrastructure projects: lost transport capacity untapped opportunity for poverty reduction and thus for lost economic growth



# Maritime Silk Road (Belt and Road Initiative)

- Chinese investments in Kenya the transport sector began in 2006, when China built or renovated a total of 905.4 km of roads
- China usually invests more in rural roads because there is potential to increase the production of coffee and tea, i.e. products exported mainly to China.
- Mombasa - Nairobi railways in Kenya, 90% financed by Exim Bank of China



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