Chinese Aid and Investment in Africa

-- 3 Data Challenges
-- 3 Investment Trends
Issues with Data: Confusions and Quality

1. External Assistance (*dui wai yuan zhu*)
2. Foreign Economic Cooperation (*dui wai jing ji he zuo*)
3. Export Buyer’s Credits (*mai fan xin dai*)
4. Overseas Foreign Direct Investment
How Much “Aid” Does China Provide to Africa?

- World Bank “$44 billion” since 1956
- *Foreign Policy* “$9 billion in aid for just one project”
- US Congressional Research Service:
  - 2006 “$9 billion”
  - 2007 “$17.9 billion”
Major Donors, ODA to Africa, 2008

Disbursements, US$ bil

- China*, 1.0
- Germany, 2.7
- Japan, 1.6
- UK, 2.6
- France, 3.4
- World Bank, 4.1
- USA, 7.2
- EC, 6.0

Source: OECD-DAC Statistics. *Chinese figure is estimate. Figures do not include debt relief
Chinese ODA to Africa, Disbursements*

US$ bil

2003 2004 2005 2006 2007 2008 2009
Contrasts

What shocks us:
China can build a presidential palace in Sudan and finance this through the aid budget.

What shocks them:
Western experts live in 5 star hotels & have rich overseas lifestyles, paid out of aid budget.
Chinese engineers & architect quarters, Sierra Leone parliament building renovation
Foreign Economic Cooperation Data

• Overseas civil engineering construction financed by foreigners or investors
• Overseas projects financed by China’s foreign aid
• Sub-contracted projects Housing development projects
Table 1: Chinese Companies: Annual Turnover from Construction Projects in Africa, 1998-2008

Source: MOFCOM (courtesy of Jean-Claude Berthelemy)
What about China’s Huge Commodity-backed Infrastructure Credits?

- Angola, DRC, Equatorial Guinea
- Widely misunderstood as “aid” but “not concessional at all” – OECD statistics
- Market-rate line of export buyer’s credit
- Tied to Chinese goods & services & secured by commodities
## Angola: Oil-Backed Line of Credit Terms (2004)

<table>
<thead>
<tr>
<th>Amount</th>
<th>Interest rate</th>
<th>Maturity</th>
<th>Grace Period</th>
</tr>
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<tbody>
<tr>
<td>China Eximbank</td>
<td>$2.0 bil</td>
<td>LIBOR plus 1.5</td>
<td>12 years</td>
</tr>
<tr>
<td>Standard Chartered Consortium</td>
<td>$2.35 bil</td>
<td>LIBOR plus 2.5</td>
<td>5-7 years</td>
</tr>
</tbody>
</table>
Angola: 33 Projects for $1b (2004-2007)

- Ag. Machinery & equipment $22m
- 4 Irrigation systems $93m
- Luanda’s electricity system: $45m
- Water treatment system repair in 3 provincial cities: $21m
- 5 agricultural training institutions
- 6 polytechnical colleges
- 5 secondary schools: $26m
- Kifangondo-Caxito road: $211m
- 86 ambulances
- 6 provincial health centers
- Rehabilitate 7 regional hospitals … etc. etc.
Risks

• Value for money?
• Project selection/ feasibility?
• Kickbacks?
• Maintenance?
• Double-mortgage a future export?
Benefits

• Less likely to be embezzled: no cash
  – “with China, you never see that money”
• “Agency of restraint” in resource-cursed countries
• Can expand debt servicing capacity
• Infrastructure doesn’t need to wait for governance to improve
  – Angola after the end of the civil war
FDI: Data Challenges

Chinese FDI flows 2007

- Asia: 63%
- Latin America: 18%
- Europe: 6%
- Africa: 6%
- North America: 4%
- Oceania: 3%

Total $26.6 billion

Source: 2007 Statistical Bulletin of China’s Outward Foreign Direct Investments
Figure 4: Chinese FDI Flows 2008

- Asia, 78%
- Latin America, 7%
- Africa, 10%
- Europe, 2%
- Oceania, 3%
- North America, 1%

Total $55.9 billion

Source: 2008 Statistical Bulletin of China's Outward Foreign Direct Investments
Nigeria: Data Problems

- Nigeria: official MOFCOM data = $796 mil stocks (2008)
- Interviews in Nigeria with Ec Counselor’s Office = $6 billion FDI stock (2009)
It’s not just the minerals

Nigerian Official:

“The West comes here, and it’s oil, oil, nothing but oil. But the Chinese come, and they are interested in every sector of our economy.”
Three Investment Trends

• Manufacturing Investment (Overseas Economic Zones)
• Resource Processing/Refining on Site
• Investment in Banks
China’s First Seven Overseas Zones in Africa
Mineral Processing & Refining

• “This country [Niger] has already seen uranium extraction for nearly 40 years ... But when one sees that the direct revenues from uranium are more or less equivalent to those derived from the export of onions each year, there’s a problem.”
Banking Investments

• Standard Bank, South Africa (< $5 bil)
• Barclay’s Bank
Chinese ambassador in Niger:

“This country has already seen uranium extraction for nearly 40 years … But when one sees that the direct revenues from uranium are more or less equivalent to those derived from the export of onions each year, there’s a problem.”
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