China’s engagement in resources sectors in Africa

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1. Emerging complementarities

- Africa:
  - 3rd largest oil reserves (9.5% of total), fastest growth rate in oil reserves (doubled over past two decades), 4th largest oil producer (12.5% of total),
  - Rich endowment of strategic base metals (gold, platinum, copper, iron-ore, manganese...), large untapped deposits

- China:
  - also became the world’s top consumer of strategic base metals (aluminium, copper, iron ore, lead, manganese, tin, and zinc)
China’s resources drive fundamentals

• Increased external reliance = urge to secure steady supply of resources to sustain economic development = energy security at the core of China’s foreign policy

• Strategy:
  - diversify import sources
  - Build up strategic reserves
  - secure long term supply contracts
  - acquire production assets and reserves overseas

• Aiming at:
  - minimizing supplying risks in the long run
  - have a greater say in future market developments
2. Resources factor in China-Africa Trade

A) resources imports account for a considerable share of its trade with Africa

B) Growing concentration of China’s imports in few commodities (2009: oil 64%, strategic metals 24%)

![Bar chart showing minerals imports in total China-Africa trade (US$ millions)]

![Column chart showing structure of China-Africa Imports]

Source: TRALAC, *China-Africa Data 2010*
2. Resources factor in China-Africa Trade

C) Imports are highly concentrated in few countries (oil: West Africa; mining: Southern Africa).

**China's top ten import markets in Africa in 2009**

- Angola: 35%
- South Africa: 18%
- Nigeria: 11%
- Sudan: 7%
- Libya: 4%
- Congo: 3%
- Algeria: 2%
- Other Af.: 12%
- DRC: 3%
- Eq. Guinea: 3%

D) Africa’s stake in China’s total oil (25%) and minerals (7.4%) imports have increased substantially

  e.g. Oil (Jan. to Oct. 2009):
  - Angola: 15.5% (25.6 million tons)
  - Sudan: 5.9% (9.8 million tons)
  - Libya: 2.8% (4.6 million tons)

Combined = 24.2%
3. Resources factor in China-Africa OFDI

A) China’s OFDI into Africa has expanded fast in recent years (3% in 2003 to 10% in 2008)

B) Geographical distribution of China’s OFDI privileges resource-rich countries

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China OFDI into Africa (US$ Millions)

- Flows
- Stock

<table>
<thead>
<tr>
<th>Year</th>
<th>Flows</th>
<th>Stock</th>
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</thead>
<tbody>
<tr>
<td>2003</td>
<td>75</td>
<td>491</td>
</tr>
<tr>
<td>2004</td>
<td>317</td>
<td>900</td>
</tr>
<tr>
<td>2005</td>
<td>392</td>
<td>520</td>
</tr>
<tr>
<td>2006</td>
<td>1,595</td>
<td>2,557</td>
</tr>
<tr>
<td>2007</td>
<td>1,574</td>
<td>4,462</td>
</tr>
<tr>
<td>2008</td>
<td>7,804</td>
<td>5,491</td>
</tr>
</tbody>
</table>


- S.A.: 3,049
- Nigeria: 796
- Zambia: 651
- Sudan: 528
- Algeria: 509

Source: NBS, China Statistical Yearbook, various years; MOFCOM, 2008 Statistical Bulletin of China’s OFDI
4. Resources factor in China-Africa Economic Cooperation

A) Bulk of China’s reported economic assistance directed to infrastructures and natural resources development


<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td>9.432</td>
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<tr>
<td>Infrastructures</td>
<td>17.865</td>
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<tr>
<td>Not-specified</td>
<td>5.024</td>
</tr>
<tr>
<td>Humanitarian</td>
<td>802</td>
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<tr>
<td>Military</td>
<td>4</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>10</td>
</tr>
</tbody>
</table>

B) Resources rich countries are major recipients of Ch. Econ. Coop. flows

China-Africa Turnover of Economic Cooperation (2008)

- Congo: 3%
- Tanzania: 2%
- Eq. Guinea: 4%
- Lybia: 4%
- Guinea: 4%
- Ethiopia: 5%
- Egypt: 3%
- Sudan: 13%
- Algeria: 20%
- Angola: 15%
- Other Africa: 20%
- Nigeria: 8%

CRS & Wagner School/NY Univ., 2008

NBS, China Statistical yearbook 2009
5. Overview of China’s position in resources sectors in Africa

- despite impressive trade, investment and cooperation stats, chinese companies position in Af. resources still lags far behind major MNC (except in Sudan and Zambia) – most equity is yet to start producing

- Ch. resources companies: clear move from greenfield investments to M&A, profiting from resources markets ‘sale’ context made remarkable inroads (acquired many assets, ie: Addax)

- However, their progression still remains largely reliant on Beijing’s political backing (governmental platform: high level exchanges & extending concessional loans for infrastructure) = as means to offset technology hurdles and the fact that they are latecomers
Impact in Africa’s development

• Positive outcomes:
  - China’s commodities demand has brought unprecedented dynamism to Af. resources markets
  - exploration and development of marginal deposits
  - providing much needed infrastructure around the continent
  - creation of thousands of jobs (mining) and capacity building
Impact in Africa’s development

• Challenges to address:
  - Labour issues (harsh working conditions, low salaries and security standards – Zambia, DRC...)
  - Environmental concerns
  - Debt sustainability of some countries (DRC)
  - Insufficient technology transfer provisions
  - Low taxation level of contracts signed (important revenue source for African countries), etc...

All threat to undermine China’s pledge to foster development in the continent
Impact in Africa’s development

• The improvement of these issues, however, is not full responsibility of China: Lack or feeble local regulatory frameworks (Labour, environment, and investment) + passive stance of Af. Gov. when negotiating the deals with Beijing

• Way forward:

• Improvement depends on China as much as on Africa to ensure a truly win-win outcome and to make the most out the development opportunity China presently represents for Africa.