

China's engagement in resources sectors in Africa

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'China in Africa project' - SAIIA

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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:
 - from self sufficient (1993) to 2nd largest oil consumer (2003) & 3rd largest oil importer (2004)
 - 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

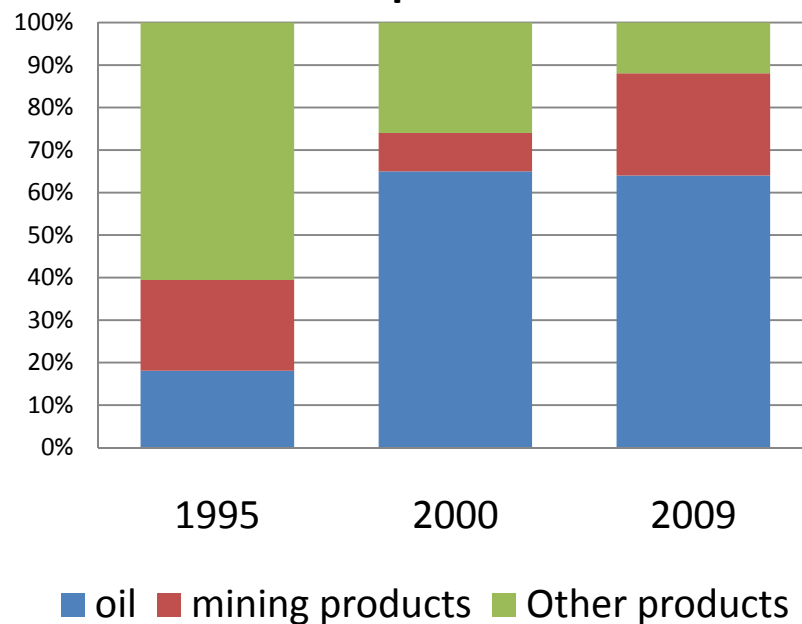
A) resources imports account for a considerable share of its trade with Africa

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

Minerals imports in total China-Africa trade (US\$ millions)



Structure of China-Africa Imports

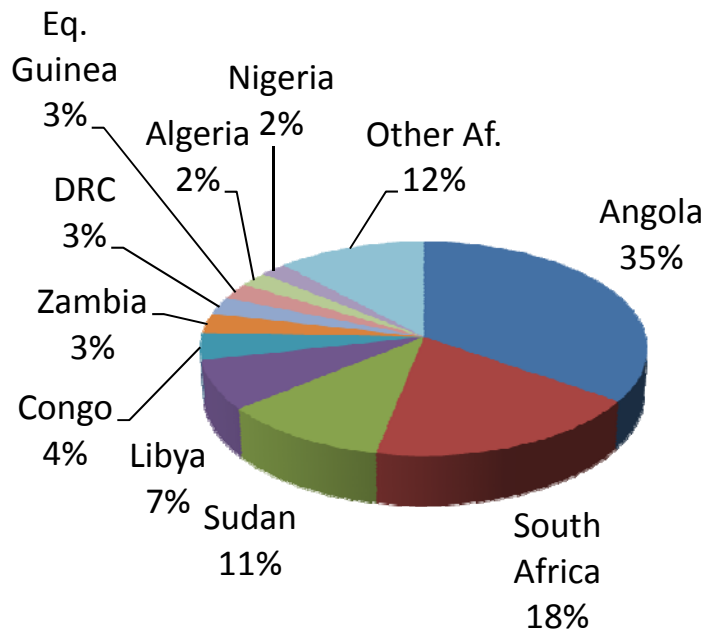


2. Resources factor in China-Africa Trade

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

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

China's top ten import markets in Africa in 2009



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%

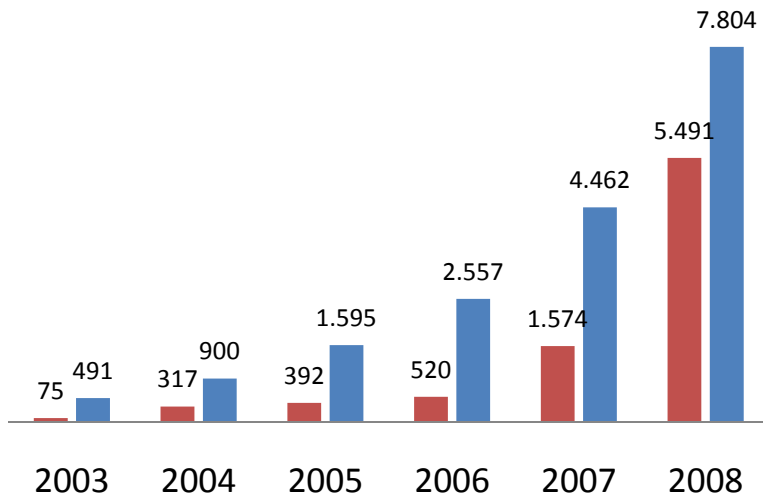
3. Resources factor in China-Africa OFDI

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

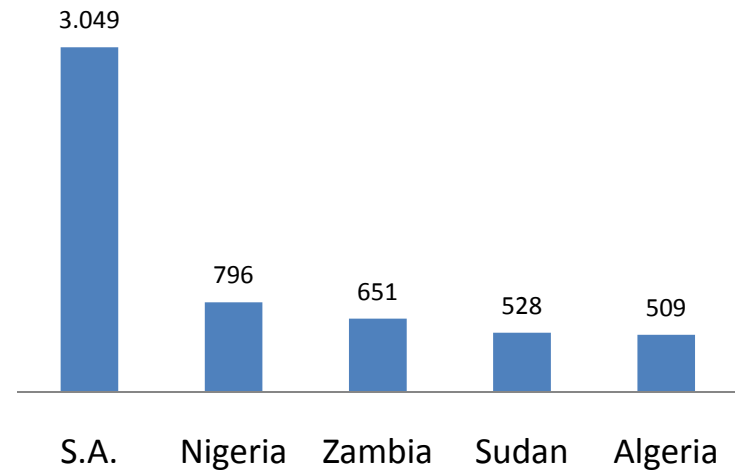
B) Geographical distribution of China's OFDI privileges resource-rich countries

**China OFDI into Africa
(US\$ Millions)**

Flows Stock



**China-Africa OFDI top 5
destinations by Stock (2008)
US\$ million**



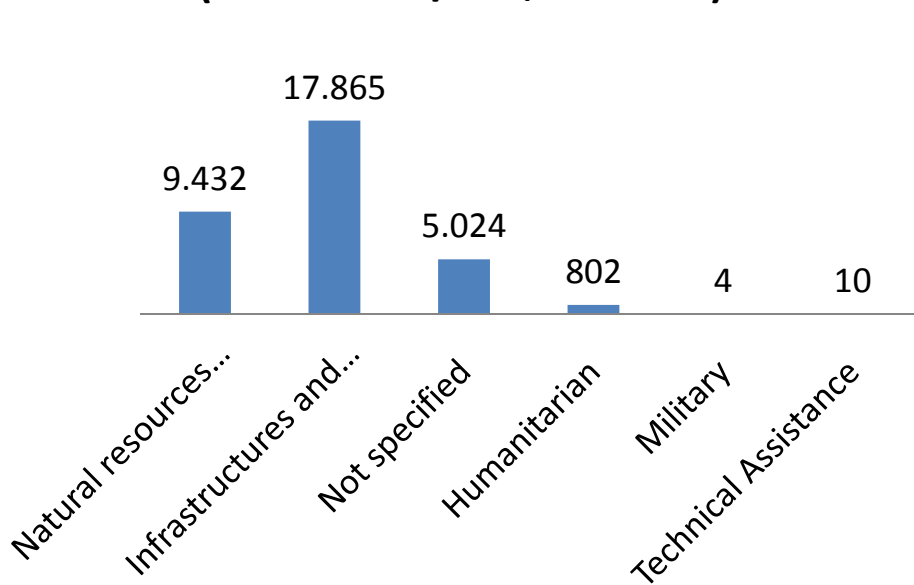
Source: NBS, *China Statistical Yearbook*, various years;
MOFCOM, *2008 Statistical Bulletin of China's OFDI*

4. Resources factor in China-Africa Economic Cooperation

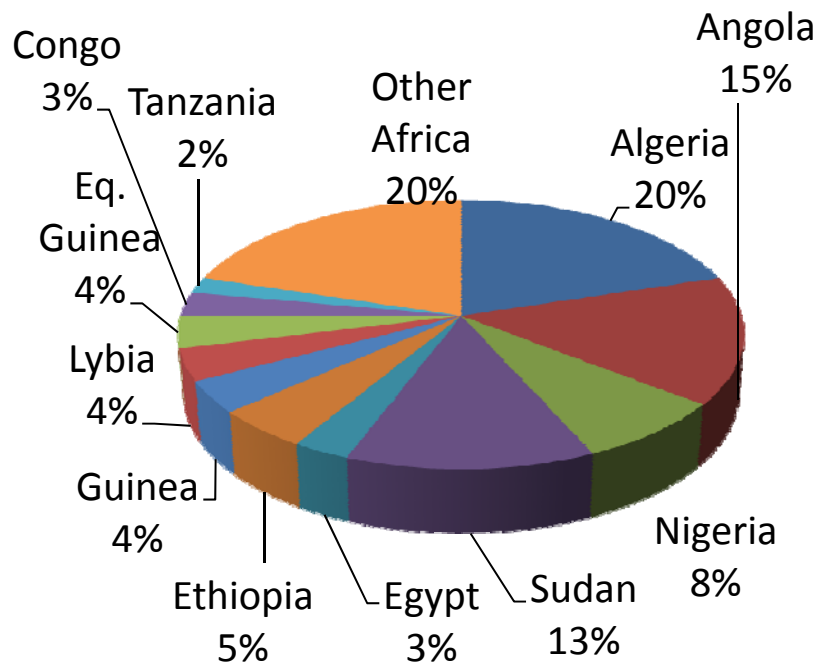
A) Bulk of China's reported economic assistance directed to infrastructures and natural resources development

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

Reported econ. assistance (2002-2007 / US\$ millions)



China-Africa Turnover of Economic Cooperation (2008)





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.