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China and Africa's Natural Resources: The Challenges and Implications for Development and Governance

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ABSTRACT

This paper proposes to analyse China's growing engagement in Africa's mineral sector and assess its impact on local governance. China's energy concerns have been playing an increasingly crucial role in its foreign policymaking in the new century. Although other energy sources (such as coal, natural gas, nuclear energy, hydropower and alternative fuels) are inherent to this debate, oil is the top Chinese concern, since it represents China's largest external reliance. In little over a decade, China went from leading Asian oil exporter to second largest world consumer (2003) and third largest global importer (2004).

China's present economic foray into Africa's natural resources thus emerges in this framework. Despite oil being by far its major import from that continent (at 26% of its total oil imports), imports of other minerals such as cobalt, manganese, copper and iron ore have risen sharply in recent years. To gain access to these minerals, China has loaned billions of dollars to African countries for infrastructure development in exchange for resources (i.e. the so-called 'Angola mode') with no conditionalities attached. China's success in achieving a significant position in the continent's natural resources market in a short period has raised concerns among Africa's traditional development partners, who fear that China's approach undermines their longstanding efforts to improve governance in the continent.

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INTRODUCTION

China's three decades of unbroken growth have transformed it from an economic backwater to the world's third largest economy. This has fuelled an ever-expanding demand for energy and new markets.[1] The promulgation of the government's 'Going Out' strategy has been the main policy response to this need, whereby ultimately over a hundred restructured state-owned enterprises (SOEs) have been given the legal and administrative means, preferential access to finance, and diplomatic support necessary to break into markets outside of China. Applying the financial resources of what by 2006 had become the world's largest holder of capital, with over $1 trillion in foreign reserves, to the problem of carving out a position in the energy and strategic minerals markets was, in retrospect, fairly straightforward in a capital-starved African environment.

Concurrently, the willingness of the Chinese government to provide a whole package of inducements alongside any leasing or supply agreements, aimed at elite-defined needs ranging from presidential palaces to large-scale infrastructure projects, has proved to be crucial to securing deals in Africa.[2] Underlying this approach is a highly publicised provision whereby the Chinese government forswears any interest in the domestic affairs of African governments, in direct contrast to the European Union (EU) or the United States (US), both of whom have selectively applied conditions to their development assistance programmes and even some investments. The success of Chinese resource diplomacy in Africa can be measured in terms of China's presence across the continent in primarily the major resource economies there. It has gone from a status of no position in the resource market in 1995 to a standing as a significant player today with oil leases from Angola to Sudan and mining concessions from the Democratic Republic of the Congo (DRC) to South Africa. Its two-way trade with Africa, reaching $72 billion in 2007 and set to break $100 billion in 2008 (two years earlier than the goal stated at the third Forum on China–Africa Co-operation summit — FOCAC), is overwhelmingly based on the extraction of oil, strategic minerals and a few raw materials in exchange for manufactured goods.[3]

CHINESE ENGAGEMENT IN AFRICA AND THE SEARCH FOR RESOURCE SECURITY

It is neither a secret nor a revelation that China's energy concerns have been playing an increasingly crucial role in its foreign policymaking in the new century. In little over a decade, China went from the leading Asian oil exporter to the second largest world consumer (2003) and the third largest global importer (2004). This fact in itself justifies the reallocation of energy security to the core of Beijing's foreign policy formulation,[4] since, as Zweig and Jianhai point out, not only is China's continued economic growth dependent on securing resources supplies, but also its social stability and ultimately the survival of the Chinese Communist Party (CCP).[5]

Despite being among the major oil producers (with a 4.8% share of world production)[6] and being second only to the US in refinery capacity and output (8.5% and 8.7%, respectively),[7] China is only able to provide for less than half of its domestic oil needs.[8] In a broader perspective, China accounted for 9.3% of the world's oil consumption in 2007 (still lagging far behind from world's major oil consumer, the US, at 24%) and

10.2% of total oil imports (in third position after the 33.9% share of the US and Japan's 12.5% share).[9] China's oil consumption has doubled in the last decade. According to the Organisation of Petroleum Exporting Countries, China's oil demand will show the world's fastest growth rate in the coming decades, doubling again by 2030, when it is expected to consume over 15 million barrels per day (b/d).[10] China alone is at present responsible for 30% of global oil demand growth.[11]

Although China became a net oil importer in 1993, it was not until the new century that energy security became central to the political debate. Although other energy sources (such as coal, natural gas, nuclear energy, hydropower and alternative fuels) are inherent to this debate, oil is the primary Chinese concern, since it represents China's largest external reliance. As Downs points out, if the question in the 1990s was whether Beijing would have the financial means to secure the necessary oil supplies, in the 2000s the issue became whether there would be enough oil available in the international market to supply China.[12] Furthermore, concerns over the growing instability in the Middle East resulted in a diversification strategy that because of the inherent complementarities swiftly placed Africa high on Beijing's new list of suppliers. Uneasiness over this topic among the political elite continued to grow in recent years, as illustrated by the creation of the Energy Leading Group (ELG) in 2005 (a co-ordination body headed by Premier Wen Jiabao), the publication of a White Paper on Energy (entitled 'China's energy conditions and policies')[13] in December 2007 and the recently published White Paper on diplomacy (July 2008), of which the first chapter is entitled 'The issue of energy security during the period of high oil prices'.[14]

In addition to oil and in order to sustain its economic growth, China also became externally dependent on other sectors of the extractive industry, further justifying its growing economic interaction with the African continent in the new century. Indeed, the same pattern emerges when analysing China's demand curve for other minerals. Over the past decade, China surpassed the US to become the world's leading consumer of most base metals. Chinese demand has been growing at a rate over 10% a year since 1990 and has intensified in recent years,[15] becoming the major driver behind the soaring prices of metals in the international market. China is the world's largest consumer and producer of aluminium, iron ore, lead and zinc, and holds significant shares in all other minerals supply and demand markets.

The African resource bounty

For these reasons, the Chinese search for resource security has become a major focus of its foreign policy, and in this regard Africa has assumed a critical role in achieving this objective. The African continent possesses a generous endowment in natural resources, namely hydrocarbons, minerals and timber, which remain mostly untapped due to decades of political instability, poor infrastructure and lack of investment. However, the Chinese foray into this sector had to take into account the prevailing dominance of established interests, primarily from the US, France and the United Kingdom (UK), all of which produced a pattern of investment that replicated the colonial era divisions refracted through the politics of the Cold War. With the end of that bipolar conflict, economic interests rapidly became more important and the geographic spheres of influence that had shaped energy investment gave way to direct competition between, for instance, French and US interests in West Africa.[16] Other major powers were attracted to the region, namely Germany and Japan, but their interests never challenged or threatened the established US and French companies. Among the most prominent newcomers are Asian states (China, India, Malaysia and Singapore) and Middle Eastern countries (Israel, Saudi Arabia and Kuwait). This scenario prepares the ground for growing competition for economic and political influence over the continent in the coming decades, which is particularly remarkable given that less than a decade ago the African continent was suffering from a decline in the interest of its Western donors, exhausted by decades of unsuccessful development co-operation.

In regional terms, Africa possesses the world's third largest oil reserves, an estimated 9.5% of global known deposits in 2007, behind the Middle East (61%) and North America (11.6%), and ahead of South and Central America (8.5%). Noteworthy is the fact that Africa boasts the fastest growth rate in identified oil reserves, which doubled in the past two decades.[17] In subregional terms, North Africa and sub-Saharan Africa (SSA) each account for half of the continent's known reserves. Libya (35%), Nigeria (31%), Algeria (10%) and Angola (8%) possess the largest reserves. As for production, Africa comes fourth, with a share of 12.5% of the world total, but the ranking changes with Nigeria as the main African oil producer (25%), followed by Algeria (21%), Libya (20%) and Angola (18%).[18] In recent years, North African countries' production has been showing signs of stabilisation, while SSA countries have been expanding their share. For instance, Angola has registered the fastest growth rate in production during the past decade, having even temporarily overtaken Nigeria as SSA's major oil producer in mid-2008.[19]

Africa's endowment in non-fuel minerals further complements the attractiveness of this picture, in which South Africa appears as the crown jewel, since it sits on one of the world's richest mineral beds. Among other minerals, South Africa is the leading producer of platinum (80% of total production and 90% of world reserves) and manganese (75% of world reserves), and the world's second largest gold producer (overtaken by Australia in 2007). The DRC is the leading cobalt producer (36%), possessing half of the world's known reserves, and is also a significant diamond producer. The DRC, South Africa and Botswana together account for over half of global diamond-mining output and 60% of known deposits.[20] Among other African countries that possess significant reserves of minerals that have recently attracted Chinese interest are Gabon (manganese), Zambia (copper and iron ore), Zimbabwe (platinum) and Angola (diamonds, copper and iron ore).

Building on Sino–African complementarities, a new chapter has opened in bilateral relations. A major feature of this is the dramatic surge in trade. Indeed, recent flows illustrate the complementarities that uphold this thriving relationship. Between 1995 and 2000 commercial exchanges more than doubled from $4 billion to $10 billion, having quadrupled in the following five years (to $42 billion in 2005), and the figure reached $72 billion in 2007[21] — not very far from the $100 billion target for 2010 laid down by Hu Jintao during the third FOCAC summit in Beijing in 2006. This reality comes as one of the most dazzling features of the relationship. Even if in relative terms it represents only a meagre 3% of China's overall foreign trade, it shows the highest growth rate among all regions. While Africa's share in Chinese exports grew from 1.7% in 1996 to 2.7% in 2006, the share in imports expanded from 1% to 3.6% in the same period.[22]

If bilateral trade is disaggregated, Chinese oil imports emerge as the lion's share of trade flows. In 2006 oil represented three-quarters of China's imports from the continent.[23]

Four countries account for 93% of China's oil supply from Africa: Angola (51%), Sudan (18%), Congo-Brazzaville (13%) and Equatorial Guinea (11%), while other minor sources were Nigeria (3%), Gabon and Chad (1% each).[24] In the global picture, Africa is China's second oil supplier (26% in 2007) after the Middle East (39%). On the other hand, China is the second largest major destination (19%) of SSA oil after the US (37%).[25] China recently overtook Europe as the second largest destination of SSA oil and is closing the gap with the US. This evolving reality implies a growing reliance in both directions, since, on the one hand, in countries like Sudan and Angola, China absorbs a significant part of their production (53% and 37% in 2006, respectively)[26] and, on the other hand, Angola alone provides 15% of China's oil imports.

As for other sectors of the extractive sector, and although there has been a steady increase in Chinese imports from the continent since the late 1990s, inflows have intensified sharply since the early years of the 2000s, with China's share having expanded from 6% to 10% between 2000 and 2006.[27] In absolute terms, Chinese imports of non-fuel mining products from Africa increased from $286 million in 2000 to $2.6 billion in 2006.[28] In 2006 diamonds imports occupied the largest share (27%), followed by platinum (17%), copper (15%), cobalt and manganese (11% each). Here as well, an evolving reliance is starting to show. Over 80% of China's cobalt and 40% of manganese imports originate in Africa, with the DRC and Gabon, respectively, the main suppliers.[29] Despite recent growth trends, copper and iron ore still rank low on Beijing's shopping list.

Despite its short history, the overall structure of Chinese imports from Africa has shown remarkable resilience in its focus on primary products, while at the same time the sources and content of these imports have diversified. For instance, Angola overtook South Africa as China's major trading partner in the region and Sudan as its main oil supplier in the continent. Other oil producers such as Equatorial Guinea and Congo-Brazzaville have also gone up in China's imports ranking. The DRC surpassed South Africa as China's leading cobalt supplier, while Ghana was overtaken by Gabon as Africa's major manganese provider to China. Moreover, oil, diamonds and base metals have seen their share expand dramatically, to the detriment of other imported goods that were part of the trade chart in the late 1990s (such as cotton, wood, tobacco, decorative stones, oleaginous seeds and fruits), translating into an increasing concentration of Chinese imports on mineral resources. Moreover, the emerging interest of China in agribusiness in Africa prompted by food security concerns might bring another shift towards diversification in the composition of its imports from the continent in the near future.

The role of China's ideological narrative

China's race for African resources comes wrapped in an attractive ideological narrative that emanates directly from Beijing's political elite. This rhetoric has its foundations in facts, guiding principles and declarations spanning five decades of relations between independent Africa and the People's Republic of China (PRC), all of which have strongly contributed to the expansion of African good-will towards China.

Indeed, China's soft power over Africa has roots in Beijing's ideological and, at times, military alignment with Africans in their liberation struggle, which — when coupled to China's own historical experience — helped cement its anti-colonial and anti-imperialist credentials. Throughout the 1960s and 1970s China provided financial aid to Africa, technological assistance in different fields, medical support and scholarships for Africans to study in China. Major figures of the four generations of Chinese leadership visited Africa and many African dignitaries came to China, with this practice becoming a routine during Hu Jintao's presidency. Following a decade of relative neglect that accompanied China's domestic economic restructuring and a successful courtship of Africa in the 1990s, the year 2000 witnessed an upgrade in Sino–African relations with the institutionalisation of FOCAC.

Since then, China's debt relief and financial assistance has reached unprecedented levels. Preferential loans soared and so did grants, most of which were in kind (mostly prestigious public infrastructure such as ministry buildings, courts, hospitals, stadiums and convention centres). The list of tariff-exempted goods between China and Africa has also been expanding. Cultural and people-to-people exchanges increased substantially, mainly through human resources development activities and the sending of African students to Chinese universities and Chinese medical teams, teachers and technicians to Africa. Furthermore, six of the nine peacekeeping operations Chinese troops participate in are located in Africa.

FOCAC traces back its ideological foundations to the Five Principles Guiding China's Relations with African Countries[30] and the Eight Principles Guiding China's Assistance to Africa announced by Zhou Enlai during his visit to ten African states in 1963/64.[31] The content of these statements of principle became recurrent jargon within Chinese South–South co-operation discourse, key features of which were equal treatment, non-interference, win-win co-operation and mutual benefit. Projecting an image of change in continuity has been, in fact, one of the main concerns of the CCP narrative, and its relation with Africa throughout five decades has been a paradigmatic exercise in this sense.[32]

FOCAC has elaborated further on Sino–African co-operation theory and practice in each of the three of its summit meetings by adopting declarations and action plans.[33] The last summit (Beijing 2006) gathered 48 African heads of state in Beijing, the largest ever such gathering outside Africa, and adopted a 'new type of strategic partnership' between the two parties. This new type of partnership aims at promoting world peace and development and the emergence of a just and equitable new political and economic order by fostering unity among developing countries.

This stance unmistakably links Sino–African ties to the broader Chinese discourse of 'Peaceful Development and Harmonious World' — Hu Jintao's legacy to the CCP's theory.[34] Furthermore, it underlines China's concern in positioning itself along a third path away from the EU's complex engagement (economic, political and military ties rooted in the colonial period) and the US's comparatively limited engagement in Africa,[35] and by doing so mitigates any fears of asymmetrical power relations that threaten to emerge from China's closer economic interaction with the continent.

China's ideological narrative towards Africa has paid back politically on several occasions along the way. In 1971 the African vote proved crucial to China gaining a permanent seat on the United Nations (UN) Security Council, and again in 1989 in helping to break the country's post-Tiananmen political isolation and in obstructing various UN resolutions against China on human rights violations, and on the Taiwan issue (only four African countries now recognise the Taipei government).

Although Africans are in general attracted to this Chinese ideological narrative, founded as it is on a proximity of historical experience and a set of attractive principles, namely non-interference, equal treatment and mutual benefit, not all see China's growing economic involvement in the continent as a positive development. This is especially the case with African states where local manufactures are threatened by China's exports (e.g. South Africa). Nevertheless, China's footprint on the continent seems to have awakened a new wave of Afro-realism among the local political elites who envisage China as a means to counterbalance the US and EU and are keen to make the most of this newly acquired negotiating power. Traditional players (i.e. the US and EU), however, feel threatened by the rapid inroads China has made in the continent and generally tend to be suspicious of future implications of a closer Sino–African relationship. Illustrative of this concern is the fact that both the EU and the US have sought to put in place trilateral platforms to establish a dialogue with China concerning its dealings in Africa.[36] International financial institutions such as the World Bank are responding to the changing terms of development on the continent by teaming up with the Export-Import Bank of China (Exim Bank) for development projects in Africa.[37]

The 'Angola mode'

The Sino–African co-operation formula differs significantly from Western patterns, as it is openly and strictly a business relationship: the trading of infrastructure for resources. What China lacks in terms of technology and capacity building, it makes up for in its willingness to provide these package deals to Africa. This funding arrangement, now referred to as the 'Angola mode', is not, however, unique to China, as other Western countries and institutions have adopted similar lending practices in the past decade, using Angola's large oil resources to overcome its lack of creditworthiness in the international financial market. Not surprisingly, Exim Bank's largest credit lines for infrastructure development secured by resources supply were recently granted in West Africa: $4.5 billion to Angola in 2004 in exchange for oil supplies, $3 billion to Gabon in 2006 in exchange for manganese exploration rights, and $9 billion to the DRC in 2007/08 in exchange for cobalt mining development. Many other such deals were signed all over Africa.

The process includes the signature of an intergovernmental framework agreement establishing the purpose, amount, maturity and interest rate of the loan, followed by a loan agreement (concessional most of the times, with interest subsidised by the Chinese government) between Exim Bank and the borrower.[38] Interest varies from 1.25% to 3% and the grace period from five to eight years, with repayment over 10–20 years. The capital is disbursed in successive tranches, released against project completion and directly paid to Chinese companies in China through Exim Bank. The lion's share (60–80%) of projects are farmed out to Chinese enterprises selected in China by Exim Bank and the Ministry of Commerce (MOFCOM) and sanctioned by the beneficiary government. It is an aid package notable for its convenience in comparison with traditional donor practices: easier and faster in delivery, with no conditionalities attached, plus the money is only 'virtual' in the target country, which spares it from getting diverted to the personal accounts of the African political elite. The result is that this sort of financial arrangement, packaging infrastructure development with resources, has become common practice for China on the continent, used as a guarantee in countries that have a bad credit record, but abundant resources. Underpinning this comprehensive package (the 'Angola mode') is a Chinese approach to risk management in Africa: the use of familiar Chinese firms and labour to fulfil the terms of Chinese-financed infrastructure packages minimises exposure to risk and negative factors in the African environment that put off other investors, such as local corruption and labour costs.

Nonetheless, this approach also raises challenges for China. Mitigating 'risk' through this approach emphasises elite ties and in so doing effectively entangles Chinese interests with those of the regimes in power. This has the danger of drawing China into local politics and undermining its non-interference approach. To sustain its interests in the continent, China will, sooner or later, have to face Africa's social environment, beginning perhaps with the negative consequences that Chinese migration may hold.

CHINESE ACTORS IN THE RESOURCES SECTOR IN AFRICA

Although China's ideological narrative has a more-or-less monolithic and coherent image abroad, the plethora of state actors involved internally in its formulation and the obscure way in which they interact with one another reveals the fallacy of a highly co-ordinated resource diplomacy strategy.[39]

Indeed, the making of China's energy policy involves inputs from an array of different state actors spanning supra-ministerial organs, several ministries and their respective departments, governmental financial institutions, and SOEs. The high profile of the agents involved makes the authority line fuzzy and the diversity of agendas and sometimes conflicting interests makes co-ordination a very problematic issue, not only among those involved, but also with the semi-autonomous national oil companies (NOCs) in the sector itself.[40]

At the top of the chain stands the National Development and Reform Commission (NDRC), a key policymaking body within the State Council (China's highest administrative body). It plays a central role in defining the long-term aims of the Chinese state. The drafting of guidelines for energy policies (price setting, approval of domestic and international energy projects, etc.) within the NDRC is the responsibility of the recently created (2003) Energy Bureau, one of the seven offices that comprise the NDRC.

Concurrently, four ministries contribute to energy policymaking: the Ministry of Land and Resources (oversees natural resources), the Ministry of Finance (tax and fiscal policies), the Ministry of Foreign Affairs (MOFA) and MOFCOM. The last two play a bigger role not only in resource diplomacy formulation, but also in its implementation.

MOFCOM contributes at different levels and has heavy responsibilities in what concerns Chinese engagement in African resources through four of its departments: West Asia and African Affairs (which provides policy advice for policymakers and information on African markets to Chinese investors), the Department of Foreign Economic Co-operation (which regulates Chinese companies overseas that are required to register with the department), the Department of Foreign Aid (which administers Chinese aid programmes, namely concessional loans, approves Chinese companies to bid for overseas contracts, and manage bids and overseas projects) and the economic counsellors offices attached to local Chinese embassies (the regulatory authority over all registered Chinese companies).[41]

Although less comprehensive, the role of MOFA is also crucial in that it provides political support to Chinese corporations (public and private) bidding on energy projects abroad and assesses the political risks inherent in any investment. Two departments within MOFA play an important part in this: West Asia and North Africa Affairs, and the Sub-Saharan Africa desks.

All these actors develop their own policies separately and according to their particular agendas. As such, co-ordination among different departments is poor. This institutional flaw is acknowledged by elements within the Chinese bureaucracy that for many years have been trying in vain to tackle the issue. With this purpose in mind, a supra-ministerial organ was created in 2005 to co-ordinate China's energy policymaking, the ELG, placed directly under the State Council. The ELG is headed by Premier Wen Jiabao and two vice-premiers and is composed of nine ministers. Its function is to provide a basis for consensus building and co-ordination across the existing bureaucratic structure. Daily operations are secured by the State Energy Office, headed by the minister of the NDRC and staffed by NDRC and energy SOE representatives, in a clear effort to increase co-ordination and curb the growing influence of corporate interests in resources diplomacy. Notwithstanding the high profile of the representatives involved, the effectiveness of these bodies is stalled by their own nature (consensus building), the fact that they have no formal authority over other energy state actors, the operational overlapping of SOEs and the Energy Bureau at the NDRC, and the complex energy bureaucratic structure and multiple vested interests that they encompass.

Exim Bank, a state-run financial institution founded in 1994, is directly under the State Council and has been the leading financial institution involved in providing concessional loans for projects in Africa. In 2006, for instance, Exim Bank provided an estimated $12–15 billion in concessional loans to Africa, more than the World Bank. More recently, the China Development Bank has been authorised by the State Council to handle the $5 billion China–Africa Development Fund launched at the FOCAC meeting in November 2006. A move into 'soft commodities' in Africa, reflecting the NDRC's recognition of China's growing food deficit in 2004, appears to be the next focus of China's Africa strategy.

Other actors with an increasing influence over resource diplomacy include provincial and local governments that are actively promoting their companies' investments in Africa, and the NOCs themselves. China's 33 provincial-level divisions, including four major municipalities, are, in cases like Guangdong or Shanghai, increasingly significant economic actors on the global stage. Since 1982 these entities have been given greater authority by the central government to promote and pursue foreign economic policy abroad, which, when coupled to their rising financial power, has given them the means to play a key role as traders and investors in Africa.[42] Provincial firms are also among the top recipients of infrastructure contracts funded by Beijing, placing them at the forefront of engagement with particular African countries. In the case of Chinese NOCs, as they are generally required to work in tandem with African national oil companies, the modalities of their approach to business, their interaction with local partners and their prevailing corporate culture all have a direct impact on the shape of China's resource policy as it is implemented. Perhaps the most visible reflection of this is the changing debate within NOCs on introducing corporate social responsibility (CSR) clauses into their work in Africa.

The intricate reality of China's resource diplomacy at present stems ultimately from the liberalisation and decentralisation of China's energy sector in the late 1990s. The policy aimed to prepare the sector's participation in China's transition from a planned to a global market economy, which gradually resulted in authority fragmentation and the subsequent shift of power and resources towards the corporate interests actually operating in the sector. It is further complicated by the aforementioned decentralisation of authority over some areas of foreign economic policy to the provinces. Despite the fragmentation at the formulation and implementation levels of policy in China's strategy for engagement in and carving out access to what the Chinese liked to characterise as Africa's 'closed market', it is clear that the resource diplomacy pursued since 1995 has been a resounding success. However, despite the visible success of this resource diplomacy in gaining access to African energy and mineral markets in a relatively short period of time, it has become evident that operating in the African environment, coupled to the changing demands of consolidating China's established position in certain markets, has posed new challenges for Beijing.

CHINESE INVESTMENTS IN THE RESOURCE SECTOR IN AFRICA

Although China now has a major presence in the African resource sector, its investments are unevenly distributed across the continent. The key sectors of Chinese trade with and investment in Africa reflect the dominance of commodities driving Beijing's interests. Leading these is oil, with 80% of the total export value in Sino–African trade, followed by iron ore (5%), timber (5%), manganese, cobalt, copper and chromium (all 0.5–1%).[43] While China's import strategy is necessarily global, such that Latin America provides more copper and iron ore exports to the country than Africa, in certain cases China has become dependent on Africa mineral exports. These include manganese from Gabon, South Africa, Ghana and Zambia, which provides 40% of Chinese import needs, and cobalt from the DRC and other African sources, which currently supplies 80% of China's needs.[44]

As noted above, Chinese investment into the mineral commodities sector includes joint ventures, which up until now has been the preferred approach. More recently, the global trend has been towards mergers and acquisitions (M&A) by cash-rich Chinese firms. In the case of Africa, according to a 2008 report, between 1995 and 2007 China concluded two major M&A deals in the mining sector in Africa worth a combined $3 billion, and five further M&A deals in the oil and gas sectors valued at $3.9 billion, bringing the total M&A form of investment into the African resources sector to $6.9 billion.[45] This was lower than combined M&A investments in these sectors in Asia ($15.3 billion) during the same period, but slightly higher when compared the next largest recipient, Latin America ($6 billion).

Moreover, with the energy shortage looming in the early 1990s, Beijing began its initial outreach by focusing on procuring access to petroleum in Africa. This has meant that the main recipients of China's comprehensive packages linking aid and investment to long-term supply contracts to date have been oil-rich countries, namely Angola, Sudan and, more recently, Nigeria. China only became involved with minerals producers like Gabon, Mauritania and South Africa at a later stage. However, the announcement of a $9 billion package for the DRC in late 2007, which was aimed at funding infrastructure development and rehabilitation in exchange for mining concessions, is the largest application of this approach to a non-oil producing country.[46] When coupled to the existing deals such as the Belinga project in Gabon (see below) and ongoing discussions between Chinese and African officials, it seems clear that mineral commodities are set to receive further investment.

Angola was indeed the first African country to sign a large resources-backed deal with China, exchanging long-term oil supply for infrastructure, a formula that, as mentioned above, has become known as the 'Angola mode'. According to the office responsible for running the Chinese loans in the Ministry of Finance,[47] three agreements have been signed with Exim Bank up to the present worth a total of $4.5 billion.[48] The loan is to be repaid over 17 years following a grace period of five years, with an interest rate of Libor[49] +1.5%, and is secured by the supply of 10 000 barrels of oil per day.[50] Soon after the signing of the first Exim Bank credit line in March 2004, Sinopec acquired its first stake in an Angolan oil bloc. The Chinese credit line is entirely directed to projects listed in the government's public infrastructures programme. On 10 April 2008 the Angolan finance minister announced during a public seminar on Sino–Angolan relations that the first $2 billion had been mainly spent on projects related to energy and water supply and education, with these sectors having benefitted by 18% and 20%, respectively, of the first consignment.[51]

Aside from this loan, China has another large credit asset in Angola through a private fund established in Hong Kong in 2005, China International Fund (CIF), the construction arm of Beiya International Development, the parent company of China Angola Oil Stock Holding, which imports oil from Angola. CIF was established to facilitate credit lines to fund projects of the Angolan National Reconstruction Office (*Gabinete de Reconstrução Nacional*) under the direct responsibility of the Office of the President. In a press release published in October 2007 the Ministry of Finance stated that the first batch of this fund totalled $2.9 billion and that it was contracted on the same terms as the Exim Bank loan. According to the World Bank, CIF's credit line totals $9.8 billion. CIF is presently undertaking, through various Chinese parastatals, the most prestigious public works projects in Angola, namely the three railway lines that run eastwards from the three main ports (Luanda, Lobito near Benguela, and Namibe). The Benguela railway was originally built in the early 20th century by the British to link the Copperbelt area in the DRC and Zambia, where the Chinese are developing strong mining interests. Chinese companies are also rehabilitating the railway lines in these latter countries, which, through Zambia, run to the Indian Ocean coast in Tanzania and South Africa (Durban), but Benguela's link is by far the shortest and fastest way out for the commodities. A branch is planned to link Zambia directly to the Benguela railway without having to go through Katanga.[52] The Moçamedes railway links Namibe port to Angola's mineral-rich Huíla (iron ore) and Cuando Cubango (copper, iron ore and diamonds) provinces.

Prospects for further funding from China are good — apparently an additional extension of $2 billion is under negotiation with Exim Bank.[53] Furthermore, in April 2008 the China Development Bank came to Luanda to express its willingness to participate in Angola's reconstruction efforts,[54] with the result that Angola might soon access another funding source from China, but apparently this time not oil backed,[55] as, prompted by abundant oil revenues, the Angolan leadership is actively trying to distance itself from this model.

The Chinese experience in Gabon, one of the largest Chinese investment commitments to date, highlights both the appeal of China's comprehensive package of financial and diplomatic incentives in exchange for long-term supply contracts with African governments and the complexities of realising these deals. In Gabon, a modest oil producer with significant underexploited deposits of iron ore and manganese, the Chinese were actively encouraged by the Gabonese government to put in a bid for the Belinga iron ore project, which had been contracted out to the Brazilian firm CVRD (now Vale).[56] Following Hu Jintao's visit, an all-Chinese bid led by China National Machinery and Equipment Corporation won exclusive rights to Belinga and its output in exchange for a $3 billion investment underwritten by Exim Bank aimed at developing Gabon's infrastructure. The project includes the construction of a brand new 560-kilometre railway line linking Belinga to the coast (CVRD offered to build only a 200-kilometre stretch of the railway), a deepwater mining harbour for transportation located north of Libreville, a hydropower dam on the Ivindo River and the iron mining factory.[57] For the Gabonese government, which generated only 2% of GDP from the mining sector as recently as 2005 and had not invested in infrastructure on this scale, this would open up new revenue streams and expand local employment possibilities in advance of elections. However, realising the deal proved more difficult, as a coalition of local and international NGOs, along with the World Bank, launched protests over the secretive nature of the contract, the concern over the Chinese 'control' over national resources and the building of a dam in a national park. The outcome was that the Chinese were forced to renegotiate the terms of the agreement within a year of signing the original contract so that the government's stake in the company created to run the project, *Compagnie Minière du Belinga*, was raised to 25%. Delays in initiating the work, partly a product of the structure of the consortium itself, have meant that the project has yet to produce results.

A similar 'infrastructures for resources deal' was signed with the DRC in September 2007. Worth $5 billion, this deal is, in fact, the largest single loan granted by China to an African country to date. Under the agreement signed by both governments and funded by Exim Bank, $3 billion would be allocated in the first phase to the rehabilitation and construction of infrastructure. The projects include a 3 400-kilometre highway linking Kisangani in the north-east to Lubumbashi and Kasumbalesa on the southern border with Zambia, the railway (3 200 kilometres) linking Katanga's mining area to Matadi port on the Congo River estuary in the west, 31 hospitals, 145 health centres, two universities and 5 000 housing units.[58] The remaining $2 billion will be released in a second phase to rehabilitate mining infrastructure and set up joint ventures in the mining sector.

Notably, this loan is well above other loans secured by the DRC in recent years from its Western donors. As with Angola and Gabon, repayment terms include rights over its natural resources, namely mining and timber concessions,[59] and toll revenue deals for Chinese companies. In January 2008 this loan was expanded to $9 billion, reallocating $6 billion to infrastructure and $3 billion to mining. In late January 2008 a deal was signed among the Congolese state miner Gécamines, Sinohydro and China Railway Engineering Corporation through which a joint venture came into existence. The joint venture, named Sicomines and 68% owned by the Chinese,[60] is to repay the loan (for both infrastructure and mining) with revenue obtained through the exploration rights over two copper and cobalt concessions located in Katanga Province, thought to contain 10 million tonnes of copper and 2 million tonnes of cobalt[61] expected to last 25 years. Sicomines is expected to achieve production of 400 000 tonnes of copper per year in the next five years, which means a great deal, considering that the DRC's total production in 2007 was 23 030 tonnes.[62]

In a first stage, Sicomine's revenue will be totally directed to repaying the mining investment, and in a second phase, 66% of income will be used to pay off the infrastructure investment and the remaining 34% distributed among shareholders, since during both phases the joint venture will be exempted from all taxes. The agreement states that only one-fifth of employees may be Chinese, 0.5% of the investment has to be directed to local staff training and technology transfer, 1% has to be spent on social activities, 3% has to cover environmental costs and 10–12% of the contracts has to be subcontracted to local enterprises.[63]

This same pattern of Chinese investment flowing jointly into mining and infrastructure also emerges in other resource-rich countries. Regarding the oil sector, China has made major investments (upstream and downstream; refineries and pipelines) not only in other established major oil producers such as Sudan (since 1998) and more recently in Nigeria, but also in smaller producing states (Gabon and Congo-Brazzaville) and new producers (Equatorial Guinea and Chad). Moreover, China is involved in prospecting activities in other putative producers, namely Ethiopia, Kenya, and São Tomé and Príncipe. As latecomers and still lagging far behind the technology and expertise of their Western competitors, Chinese NOCs rely on this approach and on the government's deep pockets to create joint ventures with local oil companies and expand their stakes in wells operated by Western NOCs.

As the fastest growing oil producing country in SSA, Angola has been one of China's main targets in the region. China won its first stake in Angolan oil after signing the first credit line agreement with Luanda in 2004. The stake in question was 50% of oil bloc 18, which belonged to Shell (the other 50% belonging to BP) and was to be sold at first to an Indian company (Videsh); but, allegedly, in the face of a bigger offer from the Chinese, the Angolan national oil company, Sonangol, handed over the stake to Sinopec.[64] Soon after, a joint venture was created with Sonangol under the name Sonangol Sinopec International (SSI), in which Sinopec holds a 55% stake.[65] In the bid round of 2005/06, China wound up with important stakes in the exploration of new licences in three important blocks. The Chinese bids were reported in the media as the highest ever offered for exploration acreage anywhere in the world, believed to be over $2 billion. Furthermore, Sinopec (as operator) and SSI (as non-operator) are presently on the list of pre-qualified companies for the 2007/08 licensing bid. Moreover a joint bid by Sinopec and CNOOC is currently under way to buy Marathon's 20% share in deepwater bloc 32, which is operated by Total (30%), with the other equity owners being Sonangol (20%), Exxon Mobil (15%) and GALP Portugal (5%). Again, the Chinese joint bid ($1.8 billion) is said to have outbid India's Videsh and Brazil's Petrobras.[66]

Although still a fraction when compared to oil, China's share in African mineral exports has been rising at a much faster rate in recent years. China presently absorbs 60% of Africa's exports of cobalt; 40% of iron; and 25–30% of its exports of chromium, copper and manganese.[67] Unlike in Gabon and the DRC, where China's recent involvement in mining is yet to produce results, China is already a major stakeholder in Zambia, a position achieved mainly through the acquisition of 85% of Chambishi copper mine in 1998, one of its first overseas mining investments. In the last few years, China has shown an increasing interest in the mining belt that stretches from south-east DRC and Zambia to Mozambique and Tanzania. Unlike the oil sector, Africa's mining sector has also been attracting investment from private Chinese companies, e.g. in Zambia, where a Chinese firm bought a manganese mine, and in the DRC, where a recent agreement was signed between Kinshasa and a private company from Shanghai (Shanghai Pengxin Group Ltd) to inject $1 billion to develop infrastructure backed by revenue from mining rights over two concessions (Kamoya and Kambove).

Because of the structure of Chinese development co-operation and the nature of African state control over concessions, the principal form of engagement by China has been through bilateral framework agreements. This position contrasts with both long-standing African aspirations for enhancing regional economic integration and even Chinese rhetoric in support of that goal. This bilateral focus pursued by China in securing commodities has been the subject of criticism by some Africans, based on the fact that it ignores African aspirations encoded in the New Partnership for Africa's Development process to enhance development through the promotion of regional integration. Since the third FOCAC meeting in Beijing in 2006, the Chinese have made a rhetorical commitment to support transregional infrastructure projects. Indeed, the China Development Bank, as the administrator of the China–Africa Development Fund (which was launched at the FOCAC meeting), has indicated that it would be willing to support infrastructure projects in the Southern African Development Community region.[68] Perhaps as an indication of greater willingness to expand and open its outreach in Africa, Chinese construction firms that had originally relied upon Chinese government-financed projects have branched out and are proving to be highly competitive bidders for publicly tendered infrastructure projects, including transregional ones, winning 10–20% of all African infrastructure projects of the International Development Association.[69]

According to a recent World Bank report on China's role in African infrastructure development, there is a degree of overlap between the geographic positioning of China's resources investments and its infrastructure commitments in Africa,[70] which is in part justified by the fact that exploration of these resources is in most cases hindered by the lack of or poor infrastructure. Set against the broad canvas of its African investments, however, China's engagement in infrastructure directly linked to resources exploration represents only 7% of its total infrastructure commitments in the region.

Although Western and local companies dominate the oil and minerals sectors in the region, the Chinese presence is growing fast. This is in no small part due to Beijing's political backing and financial might, which seems to be gradually offsetting any deficiencies in technological skills, experience and expertise in the bidding process with Western competitors (e.g. the cases mentioned above in Gabon and Angola). Furthermore China's sharpening demand for these commodities has propelled exploration not only of smaller, less productive deposits all over the continent, but also of reserves that for decades were left untapped due to political instability or because of the excessively high costs involved in their exploration due to lack of infrastructure and their remoteness. The fact that Chinese companies are latecomers seems to be more of a hindrance in the oil sector than in minerals, seeing as Chinese companies have accessed major deals in the latter sector (e.g. in Gabon, the DRC and Zambia) in a shorter time frame.

ASSESSING THE IMPACT OF CHINESE INVOLVEMENT IN AFRICA'S RESOURCES SECTOR

It is by now an established fact that China is in a position to shape African economies and influence the continent's politics to an unprecedented degree. Underlying this situation is the fact that China is set to be Africa's largest trading partner and its most significant year-on-year investor, surpassing traditional donors and international financial institutions. To put China's growing weight as a development partner in perspective, in 2006 China's financial commitments in only three African countries (Angola, Nigeria and Mozambique) of $8.1 billion equalled those of the World Bank, the US and France combined to the whole SSA region.[71] For many observers, the concern is not only China's growing influence as an unconditional donor, but also debt sustainability and its long-term impact on economic stability in the continent. Indeed, China has been expanding its credits in Africa in the framework of various Western initiatives for debt relief, namely the highly indebted poor country (HIPC) initiative and the Paris Club, which together have forgiven $89 billion of debt up to 2007 to SSA, with China's equivalent figure being below $1 billion.[72] Furthermore, in some cases, Chinese loans are larger than the national budgets, as has been the case in Gabon and the DRC.

Any overall assessment of China's involvement in the resource sector in Africa — which, after all, involves hundreds of Chinese SOEs and private companies in nearly fifty African countries — necessarily deals in generalities that may gloss over some particular examples. Having said that, the development impact of Chinese investments in commodities in Africa has been generally quite positive, although not without controversy in certain settings, while the impact on governance matters has been on the whole more contentious. In both cases, however, it is necessary to go beyond the media accounts to get a fuller understanding of the Chinese role and impact in these areas.

Impact on development

On the positive side of the development ledger, China has made a substantial contribution to the provision of 'hard infrastructure' such as roads, railways and hydropower projects. As underscored by a recent World Bank study, the investment backlog in infrastructure is set at $22 billion annually, and Chinese investment, peaking in 2006 at $7 billion, is making a major contribution to addressing this need.[73] China is financing 10 major hydropower projects with a combined capacity of 6 000 megawatts that will increase SSA's total hydropower generation capacity by 30%. Its firms are rehabilitating 1 350 kilometres of existing railways and building 1 600 kilometres of new railways, a significant addition to the 50 000 kilometres of railways in Africa.[74] These activities are well tailored to the overcapacity in China's domestic construction industry, which, like other sectors, had been encouraged by Beijing to 'Go Global' and is a fine illustration of the principle of 'mutual benefit' in developing-country co-operation. Chinese project finance, which has in some instances ignored the conventional assessments of risk produced by Western banks, has set off a process of reviewing industry standard risk metrics and, concurrently, the investment potential in Africa.[75] While poverty reduction is not being addressed directly as such in Chinese investments in mineral commodities, insofar as the provision of hard infrastructure releases untapped or underexploited resources, the Chinese are making an important contribution towards alleviating poverty, nonetheless. The elimination of bottlenecks by providing new transport and port facilities and more power generation capacity are all contributing to laying the foundations for Africa's economic take-off.

Problematic features of the relationship are the wilful ignoring of some of the features of financing that have been designed to improve African governance (so-called 'soft infrastructure'), the accompanying lack of transparency in financial support (primarily concessional loans) for investment projects, and the conduct of some Chinese companies (state and non-state owned) in violating labour and environmental standards in host countries. In the mining sector specifically, this has resulted in practices such as the illegal use of child labour and substandard health and safety conditions in Katanga.[76] Indeed, 600 Chinese nationals involved in mining have been expelled by the DRC government for violating basic labour and environmental standards. Anecdotal evidence from around the continent suggests that new private entrants into the mineral commodities sector are as culpable in this regard as Chinese SOEs. In response to these problems, Beijing has committed itself to introduce CSR measures into business practices among Chinese SOEs (see below).

More broadly, there are concerns around the structural impacts of Chinese investment on African economies. These include the overall pattern of trade relations, which replicate Africa's traditional standing with the industrialised West as a provider of primary products in exchange for finished manufactured goods. The recent fall in commodity prices highlights the dangers of reliance on this sole source of revenue and the need for diversification. Thus, the desire to enhance African development prospects through the pursuit of beneficiation strategies that complement the extraction of resources is seen to be imperative to breaking Africa's poverty cycle. Finally, there are concerns over the structure of the loans being provided by the Chinese that could potentially put African countries into a new cycle of debt, something that is especially disturbing given the hard-won concessions needed to win debt forgiveness in the last decade.

Impact on governance

Many of Africa's leading natural resource economies have experienced decades of conflict, neglect and mismanagement. Regimes within these countries tend to base their power in extensive patronage networks and control major economic assets through personal shareholdings, often held by close relatives. As a result, some of these 'neo-patrimonial regimes' have consistently appeared at the bottom of Transparency International's Corruption Perception Index, namely, Angola (147th out of 179 in 2007), Congo-Brazzaville (153rd), and Equatorial Guinea and the DRC (joint 168th).[77] Against this backdrop, Western donors have expressed concern over China's expanding engagement in the continent, as they fear that China's 'no strings attached' approach to investment might undermine their long-standing efforts to improve governance and transparency through the application of strict conditionalities. And indeed, the Chinese funding formula, the so-called Angola mode, allows countries with no creditworthiness in the international market to contract loans against resources output, allowing them to circumvent International Monetary Fund (IMF) and World Bank transparency requirements. Moreover, it is clear that the arrival of China as an explicit alternative to the West has emboldened regimes to pursue policies that might otherwise be subject to counteraction by the donor community and international financial institutions.

Nonetheless, a closer look at the case of Angola demonstrates that although China's credit lines did help Luanda keep the IMF at bay in 2004, it has in fact been Luanda's rocketing oil revenue that ensured independence of action. At present, Angola's oil revenues have enabled Luanda to repay its outstanding debts, increase budget spending by 30%,[78] and contract oil-backed loans from several public and private institutions. This practice is, however, to be gradually replaced by the issuing of treasury bonds that will be used to finance infrastructure reconstruction.[79] Moreover, the record of inducing behaviour changes on the part of 'neo-patrimonial regimes' through conditionalities has, in fact, been quite weak, something that the Chinese have taken note of in their own assessment of governance.

Furthermore, and despite its alleged disenchantment with 'Washington consensus' mechanisms like the IMF, HIPC[80] and the Extractive Industries Transparency Initiative (EITI),[81] the government in Luanda has been repaying its creditors and improving transparency in public accounts. For instance, the Ministry of Finance has made public information that had previously not been disclosed, including the government's public accounts, the management of the Exim Bank loan, and a report on the assessment of the oil sector and other facts relating to the ongoing oil bid. This suggests that closer ties with China do not necessarily mean a decline in transparency indicators. Far from it, in fact: Angola's governance performance has been improving in recent years according to the Transparency International and Mo Ibrahim indexes. Even the IMF provided a positive evaluation in its last Article IV staff report (October 2007) on the economic progress registered under the reforms being implemented by the former finance minister[82] in the areas of macroeconomic stability, inflation, fiscal policy, debt sustainability and improvements in the accountability system. Nevertheless, as the IMF report pointed out, a lot remains to be done regarding poverty reduction, monetary policy and caution in government spending, and further progress is needed in transparency and governance,[83] especially with respect to Endiama and Sonangol accounts (the diamond and oil parastatals, respectively).

Traditional development partners are also concerned about the risks entailed for sustainable development in terms of resources exploration and environmental impact since Chinese companies have entered African countries, as African regulations are generally poorly implemented and provide, therefore, low protection standards. There are already wide concerns over the environmental impact of Chinese projects in the region, especially in the timber industry. Central Africa contains the largest tropical rainforest on the continent and as such has been subject to predatory deforestation in the last few years. As the largest importer of logs from the region, China is under fire from Western environmental organisations. Western businesses are easier to control because they possess strict import regulations and are subject to direct pressure within the political framework of Western society. China's domestic environmental regulations and standards, on the other hand, are yet to be significantly improved. Beijing's interest in promoting better standards of operation by its SOEs is slowly taking root (see below), but if the Western pattern is any guide, this needs to be complemented by an active Chinese civil society engagement on these topics. Although civil society forms of environmental activism are growing in China (especially in the wake of the 2008 Beijing Olympic Games), they are overwhelmingly focused on domestic issues and do not, as yet, deal with environmental matters beyond the country's borders. At this stage, as the case of Gabon demonstrates, the coalition of donor interest, international financial institutions and civil society action remains crucial and should be fostered in these countries to prevent their governments from allowing further abuses.

China: A change in behaviour?

The pressure on and scrutiny of Chinese foreign policy and the conduct of its firms based in Africa have been growing features since 2004. At the same time, the adaptability of the Chinese government to new circumstances and its willingness to consider — if not always act upon — the reaction of African and even Western actors to its engagement is now recognised. Moreover, greater exposure to Africa on the part of Chinese firms has meant that they have increasingly been targeted by militants in conflicts in Sudan, Ethiopia and Nigeria. The result of this is that China's resource strategy towards Africa is undergoing some modest changes that are in no small part a result of this exposure to international scrutiny. For instance, recently, China has shown some openness towards a number of international regulation initiatives to improve governance, transparency and sustainability of natural resources development in Africa, namely the EITI[84] and the Equator Principles.[85]

Some measures have been taken by Beijing to improve the environmental impact of China's overseas investments, namely the issuance in October 2007 by the State Council of nine principles regulating Chinese companies' investments overseas, followed by similar initiatives in a number of ministries (e.g. MOFCOM), and the agreement signed in January 2008 between the Chinese environmental watchdog (the State Environmental Protection Administration) and the International Finance Corporation to introduce the Equator Principles in China.[86] Although this does not necessarily apply to the latter's overseas investments, it offers a blueprint from where Chinese financing institutions such as Exim Bank may extract guidance in the near future. In November 2008 China's Industrial Bank became the first Chinese financial institutions to adopt the Equator Principles. Despite progress at the political level, the lack of an efficient supervision mechanism at the bottom of the hierarchy has yet to produce results, as indicated by the recent controversy involving Chinese hydropower projects in Africa (the building of dams in Gabon and Sudan).

As for Exim Bank (which is becoming the world's largest funding agency, pledged to invest $20 billion in Africa in the period 2007–10), it adopted its own environmental policy in 2004, which it made public in mid-2007, and complemented this with further guidelines in August 2007 concerning social and environmental impact assessments, urging Chinese companies to comply with host country policies, but no reference was made to any international regulations. Nevertheless, the signature of a memorandum of understanding with the World Bank in late 2007 to exchange information on project evaluation procedures and look for opportunities to co-operate in development projects in other countries may have a positive impact on the World Bank's environmental and transparency standards in the future.

In the realm of the EITI, progress has been far slower. Although a significant number of resource-rich African countries have joined the list of candidate countries (including some of China's strategic partners, e.g. Equatorial Guinea, the DRC, Nigeria, Gabon and Ghana),[87] some of the most strategic Chinese partners have chosen not to be involved, namely Angola and Sudan. Even though China is trying hard to keep the EITI at bay, international pressure has forced some progress on this, and the country recently signed a joint statement during the last G8 summit in Japan (June 2008) that included a paragraph welcoming the implementation of the EITI. Furthermore, a China–EITI work plan is currently under way in an attempt to further engage Chinese authorities and companies with the initiative.[88]

There have also been other signs of policy shifts. Sudan represents the most paradigmatic case in terms of the Chinese principle of non-interference, which was openly challenged by the deterioration of the political situation in Sudan. Pressed by the twin forces of the African Union (AU) and international public opinion, Beijing has been forced to modify its once staunch 'non-interference' stance and authorise a hybrid UN–AU-sponsored peacekeeping force in Darfur. This significant change contrasts, however, with China's uncompromising posture regarding the political situation in Zimbabwe, another African state over which China has influence, but whose own regime continues to receive the backing of important countries like South Africa. This suggests that changes in China's policy are mostly ad hoc and prompted by strong African pressure.

CONCLUSION: NATURAL RESOURCES AND AFRICA'S CHINESE FUTURE

Although much is made of China's unique relationship with Africa, in fact, China's foray into the continent follows patterns that were previously set by traditional partners insofar as it emphasises local elites, is founded on resource-backed loans and subscribes to a clear profit motive. African resources remain the primary draw for outside investment, and the key challenge for Africans and development practitioners alike is to take this economic driver of engagement and use it to promote a developmental agenda for Africa. Doing so requires African governments to demonstrate leadership and innovative thinking, building upon the best established practices from their own experience with traditional partners and integrating these with the insights and policies of emerging economies. China offers a new opportunity for Africa to reshape its relationships with external partners in ways that can enhance its overall development prospects. For its own part, China has proved to be sensitive to African and international pressure, having recently introduced changes in its policies towards the continent. Unfortunately, policy shifts in Beijing do not necessarily translate into tangible changes at the bottom of the chain. National (ideological) and corporate (profit-driven) interests diverge most of the time, and there is no effective supervision mechanism to ensure compliance. Bearing in mind that China has shown signs of sensitivity to external pressure — explained by the need to please some constituencies in the West (the urge to play the 'responsible stakeholder' role) — there is a strategic role to be played by civil society and international institutions in this process. This should focus not only on Chinese conduct, but most especially on the natural resources-related policy choices and implementation strategies of local African governments. Effective surveillance and related mechanisms need to be put in place to ensure compliance by all players, traditional Western partners included, with policy regimes aimed at improving African development, be they improved environmental regulations, labour standards or taxation collection systems. In this way, those resources that have too often been seen to be a form of 'curse' can truly act as the source for African development.

ENDNOTES

1 See, for instance, Downs E, 'The energy security debate', *China Quarterly*, 177, March 2004, pp. 21–41; Soares de Oliveira R, 'Making sense of Chinese oil investment in Africa', in Alden C, Large D & R Soares de Oliveira (eds), *China Returns to Africa: An Emerging Power and a Continent Embrace*. London: Hurst, 2008, pp. 83–109.

2 For further details on this, see Alden C, *China in Africa*. London: Zed Books, 2007, pp. 11–36.

3 See Pinaud N *et al.*, *The Rise of China and India: What's in It for Africa?* Paris: OECD, 2006.

4 For a detailed account of energy security's emergence as China's foreign policy's major driver, see Zweig B and B Jianhai, 'China's global hunt for energy', *Foreign Affairs*, 84, 5, September/October 2005, pp. 25–38.

5 *Ibid.*, pp. 25–26.

6 China occupies the fifth position as producer after Saudi Arabia and the Russian Federation (both with 12.6%), the US (8%) and Iran (5.4%), according to BP, *Review of World Energy 2008*, p. 9, <http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622>.

7 US refinery capacity and output share are each 20% of the total, over twice China's share (*Ibid.*, p. 18).

8 According to BP (*Ibid.*, pp. 9 & 11), in 2007 China produced 3.7 million b/d and consumed 8.2 million b/d.

9 *Ibid.*, p. 11.

10 OPEC (Organisation of Petroleum Exporting Countries), *World Oil Outlook 2008*, p. 46, <http://www.opec.org/library/world%20oil%20outlook/WorldOilOutlook08.htm>.

11 *Ibid.*, p. 47.

12 Downs E, *China*. Washington, DC: Brookings Institution Press, December 2006, p. 15.

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14 Hsiao H, 'Energy security the centrepiece of China's foreign policy', *China Brief*, 8, 16, 1 August 2008, <http://www.jamestown.org/terrorism/news/article.php?articleid=2374346>.

15 Brett D & M Ericsson, 'Chinese expansion to create new global mining companies', *Commodities Now*, October 2006, p. 22, <http://www.rmg.se/RMG2005/pages/attachments/COMMODITIES_NOW_2006_Oct,_Chinese_Expansion_to_Create_New_Global_Mining_Companies.pdf>.

16 For a detailed analysis, see Schraeder PJ, 'Cold War to cold peace: Explaining US–French competition in francophone Africa', *Political Science Quarterly*, 115, 3, Autumn 2000, pp. 395–419.

17 BP, *op. cit.*, p. 6.

18 Data adapted from *Ibid.*, p. 8.

19 Although Angola's production has been increasing significantly, it overtook Nigeria as a producer in part due to increasing unrest in the Niger Delta oilfields.

20 All figures are for 2007 and are based on data in USGS (US Geological Survey), *Mineral Commodity Summaries 2008*. Washington, DC: US Department of the Interior, USGS, 2008.

21 Figures according to data of the Chinese Ministry of Commerce, <http://english.mofcom.gov.cn/article/statistic/ie/200802/20080205371690.html> and World Trade Organisation data, <http://www.wto.org/english/res_e/statis_e/its2006_e/appendix_e/a14.xls>.

22 Tralac (Trade Law Centre for Southern Africa), 'Africa's trading relationship with China, 2007', <http://www.tralac.org/cgi-bin/giga.cgi?cmd=cause_dir_news&cat=1044&cause_id=1694#china>.

23 *Ibid*.

24 Foster V *et al*., *Building Bridges: China's Growing Role as Infrastructure Financier for Africa*. Washington, DC: World Bank, 2008, p. 47.

25 Figures for 2007, based on BP, *op. cit*.

26 Figure for Sudan in Foster V *et al*., *op. cit*., p. 31; figures for Angola in IMF (International Monetary Fund), *Angola: Article VI Consultation*. Washington, DC: IMF, October 2007, p. 55, <http://www.imf.org>.

27 Based on data in Tralac, *op. cit*.

28 *Ibid*.

29 Foster V *et al*., *op. cit*., p. 31.

30 Inspired in the Five Principles of Peaceful Coexistence (mutual respect for territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in internal affairs, equality and mutual benefit), which were expounded in the first National People's Congress in September 1949 and then again in the proclamation ceremony of the founding of the PRC the following month.

31 The eight principles are as follows: 1. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual. 2. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges. 3. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for repayment when necessary so as to lighten the burden of the recipient countries as far as possible. 4. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development. 5. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital. 6. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them. 7. In providing any 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. The Chinese experts are not allowed to make any special demands or enjoy any special amenities (Chinese Ministry of Foreign Affairs website, <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18001.htm>).

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80 An IMF and International Development Association instrument created in 1996 and enhanced in 1999 to provide debt relief to the world's most 'heavily indebted poor countries'. The criteria that a country needs to meet before becoming eligible under the initiative can include good

governance, accountability for public funds and the adoption of a national anti-corruption strategy.

81 The EITI, which was launched in 2005 by a coalition of governments, companies, civil society groups, investors and international organisations, sets a global standard for companies working in the extraction of natural resources such as oil, gas, minerals and timber to publish what they pay and for governments to disclose what they receive. There are presently 23 candidate states, mostly from SSA.

82 José Pedro de Morais, who has held the position since 2002. He was nominated in early 2008 as the best African finance minister by *The Banker Magazine* (Financial Times Group) due to progress made in macro-stability, transparency, accountability and fighting corruption.

83 IMF, *op. cit.*, pp. 3–16.

84 See endnote 82 above.

85 The principles are a voluntary set of guidelines based on International Finance Corporation policies to incorporate social and environmental issues in project financing.

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