

CHINA'S AFRICAN INFRASTRUCTURE PROJECTS: A TOOL IN RESHAPING GLOBAL NORMS

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EXECUTIVE SUMMARY

The resilience of China's investments in African infrastructure has been called into question in the light of its own economic slowdown. The substantial reduction in Chinese demand for African commodities has resulted in a significant drop in commodity prices, causing an adverse economic outlook in many commodity-dependent African economies and potentially decoupling the African growth story from China's influence and economic engagement. This policy insights paper argues that China's infrastructure-based economic statecraft in Africa has shown and will continue to show resilience in the face of new economic realities in the China–Africa relationship, as these projects fit into China's broader goals of reshaping global norms.

INTRODUCTION

China has over the past few decades sought to use multilateral forums to accomplish its political, economic and security goals. Reilly¹ encapsulates the Chinese government's control over its massive state-owned enterprises (SOEs) and foreign reserves when he states: 'Never in world history has one government had so much control over so much wealth.'

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China is therefore increasingly able to employ economic tools in pursuit of global goals, framed as the use of economic statecraft. ‘Statecraft’² refers to a set of instruments that are available to states to influence the behaviour of other states in their favour, and usually refers to military, economic and diplomatic instruments. In international relations theory, ‘economic statecraft’ is a country’s use of economic tools and relations to achieve foreign policy and geopolitical goals. China has used these tools since 1978, but its own impressive development trajectory has provided it with the credibility to challenge the development paths, rules and norms advocated by the multilateral institutions shaping the global order. It views the current global order as unfairly biased towards Western liberal norms such as ‘Western’ conceptions of human rights, democracy and unregulated markets.³ With a massive infrastructure shortage and minimal internal trade, the stakes are nowhere as high as they are in Africa.

China’s ‘Opening Up and Reforms’ policy, instituted by Deng Xiaoping in 1978, heralded an era of incremental changes in its domestic economy and produced massive development gains over the next three decades. Africa’s place in China’s new policy paradigm was cemented during Premier Zhao Ziyang’s African tour in December 1982/January 1983, when the ‘Four Principles on Sino-African Economic and Technical Co-operation’ were announced. This visit reformulated its development co-operation, with the Tazara Railway being the signature example of its ideology-driven aid, to one of ‘mutual interest’ or ‘win-win co-operation’ as the basis for economic co-operation. China’s economic involvement in Africa remained trifling until the mid-1990s, but this began to change with China National Petroleum Corporation’s investment in Sudan’s oil sector in 1995. It evolved further with the establishment of the Forum on China–Africa Cooperation (FOCAC) in October 2000 in Beijing.

FORUM ON CHINA–AFRICA COOPERATION

The tri-annual FOCAC forum is a collective dialogue platform, alternating between Beijing and an African host city, that brings together Chinese and African leaders in a South–South co-operation dialogue forum to discuss issues of mutual concern. The institutional nature of FOCAC is summed up by the Centre for Chinese Studies:⁴

The FOCAC ministerial meetings largely are formalities, setting the tone for future collaborative agreements. As a result, de facto development of African countries’ relations with China takes place in the ongoing bilateral dialogue and the preparatory meetings that are coordinated in each African country by the President’s office and the Ministry of Foreign Affairs.

Hence, although FOCAC resembles a multilateral forum, the majority of projects are implemented on a bilateral basis. FOCAC is a low-level multilateral institution, as it does not use formal voting procedures or legally binding documents but rather seeks consensus through dialogue. It can therefore be considered an institutional vehicle for promoting China’s international relations norms through consensus building. Since its inception in 2000, China’s engagements with Africa have increasingly taken the form of large infrastructure projects such as road, rail, air and electricity infrastructure and major construction projects, for example the

Chinese-built AU headquarters in Addis Ababa.⁵ FOCAC, in many ways, is a proclamation of China's willingness to provide an alternative to Western investment in assisting Africa's economic development through 'package deals' comprising mining, infrastructure and industrialisation projects.⁶

Africa's uptake of these projects is not surprising, as the need for infrastructure development on the continent is massive and pressing. According to the World Bank, the 48 sub-Saharan African countries generate roughly the same amount of power as Spain, and only one-third of Africans live within 2km of a paved road, as compared to two-thirds in other developing regions. It estimates that roughly \$90 billion is needed annually over the next decade to address Africa's infrastructure deficit in terms of construction and maintenance.⁷

FOCUS ON INFRASTRUCTURE DEVELOPMENT

China also recognises that the lack of infrastructure in Africa is a major obstacle to the continent's development. It has therefore prioritised infrastructure in its African agenda and has vocalised and implemented infrastructure development as a priority through platforms such as FOCAC. The Infrastructure Consortium for Africa puts Chinese investment in African infrastructure at roughly \$13.9 billion a year between 2011 and 2013, which makes China the largest single source of financing for infrastructure in Africa.⁸ Projects such as the Lamu Port–South Sudan–Ethiopia Transport (LAPSSET) corridor, the standard gauge railway between Nairobi and Mombasa, and the Dar es Salaam–Bagamoyo transport corridor, once complete, will be regional game changers in enabling the movement of goods and people.⁹ Furthermore, in 2015 China and the AU signed the 'most substantive project the AU has ever signed with a partner'¹⁰ – a memorandum of understanding to jointly develop infrastructure to connect the continent's capitals through road, rail and air transport routes as part of Agenda 2063. Other major Chinese funded and constructed projects include the 186km Abuja–Kaduna Railway that was completed at a cost of \$850 million in Nigeria, and which forms part of the larger 1 224km Lagos–Kano railway construction and modernisation project; the \$12 billion Nigerian Lagos–Calabar Coastal Railway; the \$1 billion deep-sea port deal between China Harbour Engineering Company and the Cameroonian government; and the construction of the \$200 million Mammah Airport in Sierra Leone.¹¹

Should these projects come to fruition, they will help to address the chronic lack of internal trade on the continent, with around 80% of Africa's exports destined for the outside world in 2013.¹²

From the African perspective, China offers investment, services and consumer goods more complementary to regional value chains than the more expensive and cutting-edge technological products and services offered by traditional Western partners. China's aid and investments also come with fewer political and economic conditionalities. China's model for aid to Africa is more diversified as it combines both pure aid and investment projects.¹³ This combination of commerce and aid manifests itself best in the form of infrastructure projects, as infrastructure is both a public and a commercial good. (It is important to note, however, that China's 'model' has not been universally accepted, as in the case of Botswana.)¹⁴

Roughly \$90 billion is needed annually over the next decade to address Africa's infrastructure deficit in terms of construction and maintenance

However, China's resilience and reputation as an 'all-weather' friend was called into question at the sixth FOCAC, which took place against the backdrop of the slowing Chinese economy. The Chinese economy has seen single-digit growth over the last three years (7.3% in 2015), in contrast with the heady growth figures of the early 2000s (11.4% in 2005).¹⁵ This slowdown, termed the 'New Normal' by China's President Xi Jinping, is part of a gradual shift away from low wages, cheap exports and heavy infrastructure spending funded by state-backed debt – all of which provided the foundation for the more than two decades of double-digit growth. Now, however, debt has swollen to twice the size of the economy and industries such as steel and construction (important components of China's infrastructure stimulus plan during the financial crisis) suffer from overcapacity and a fall in demand. To address this problem China has opted to restructure the domestic economy by stimulating domestic consumption, services and private entrepreneurship. These sources of growth rely less on state funding and more on alternate sources of capital such as the stock market.

At the same time, the 'Africa Rising' narrative of the last decade that saw significant development and economic growth in sub-Saharan Africa was primarily (although not entirely) premised on the commodity super-cycle, which was in large part driven by Chinese demand for African commodities. The slowdown in the Chinese economy and the concurrent drop in oil prices have had a significant negative effect on Chinese imports from Africa (dropping from \$117 billion in 2013 to \$70 billion in 2015)¹⁶ and foreign direct investment (FDI) in African states. The International Monetary Fund revised the 2015 forecast for growth in sub-Saharan Africa downwards, from 4.5% in April to about 3.5–3.75% in October.¹⁷ Raw commodity exporters such as Nigeria and Ghana have seen rising fiscal deficits and ballooning debts. In Angola, for example, China gave Angola preferential credit for infrastructure development through the Export-Import Bank of China and the China Development Bank, which in turn is guaranteed with oil.¹⁸ This model has proven to be very attractive to cash-strapped African countries over the past two decades.¹⁹ However, the recent fall in oil prices has put downward pressure on the Angolan government's budget, raising fears that 'the resource curse' is back in full force.²⁰

UNDERSTANDING THE THINKING BEHIND CHINA'S INVOLVEMENT IN AFRICA

In order to understand the implications of China's economic slowdown for Africa's development and economic growth outlook, it is useful to consider the nature of its involvement in Africa's infrastructure space.

Researchers at the Brookings Institute stress the dearth of literature on the 'development spill-over effects' of China's engagement in the African infrastructure sector and the motivations behind its involvement:²¹

Deciphering a clear strategy for Chinese funding that might help in longer-term aid distribution projections, thus, continues to elude infrastructure analysts. Ultimately, it is probably a combination of various strategic objectives.

China–Africa commentators such as Tukić²² attribute China’s increasing involvement in Africa’s infrastructure space to two factors. Firstly, its saturated domestic construction industry has prompted Chinese firms to look for opportunities elsewhere. Secondly, the development of Africa’s infrastructure allows China’s private firms and SOEs to gain access to the continent’s relatively untapped and unsaturated infrastructure and consumer markets. World-systems theory scholars such as Wallerstein²³ take a more pessimistic view and contextualise China’s engagements in Africa within the core-periphery critique of global capitalism. Utilising this framework, China’s engagements with Africa are therefore tantamount to empire building and neo-colonialism aimed at securing African resources. They also cite issues such as the propensity of Chinese firms to bring in their own labour force and materials in their critique of its claim of a win–win relationship with African countries and communities.

While most studies have focussed on the economic and commercial motivations behind China’s infrastructure projects in Africa, scholars have paid little attention to how its African aid projects fit into its broader geopolitical ambitions. China clearly hopes to rebalance the global multilateral order to achieve a more equitable distribution towards the global South (of which China considers itself an integral part). This objective is at the heart of the promotion of the ‘Five Principles of Peaceful Coexistence’, developed by China and India during the Bandung Conference in 1954–55.²⁴

In concrete terms, this entails reshaping the international system to be truly multipolar; promoting the rule of law in international relations, with total respect for and adherence to the sovereignty and territorial integrity of legally recognised governments and states; mutual non-aggression, meaning the use of dialogue and negotiation to resolve disputes; non-interference in each other’s internal affairs; equity and mutual benefit, where each state, regardless of size, wealth or power, has an equal say in the global system and discussions that concern the future of humanity;²⁵ and peaceful coexistence.

This sentiment of South–South solidarity (sometimes known as the ‘Bandung Spirit’) particularly resonated on the occasion of the launch of FOCAC in 2000. The Beijing Declaration of the Forum on China–Africa Cooperation stated:²⁶

We reaffirm that the injustice and inequality in the current international system are incompatible with the trend of the times towards world peace and development, hinder the development of the countries of the South and pose threats to international peace and security. We stress that the establishment of a just and equitable new international political and economic order is indispensable for the democratisation of international relations and for the effective participation of developing countries in the international process of decision-making.

Furthermore, when Xi assumed office in 2012 there were increasing calls for China to play a more assertive role on the global stage. Xi’s ‘Great Rejuvenation of the Chinese Nation’ and ‘A New Type of Major Power Relations’ soon replaced Deng’s ‘Hide Your Strengths and Bide Your Time’ strategy.

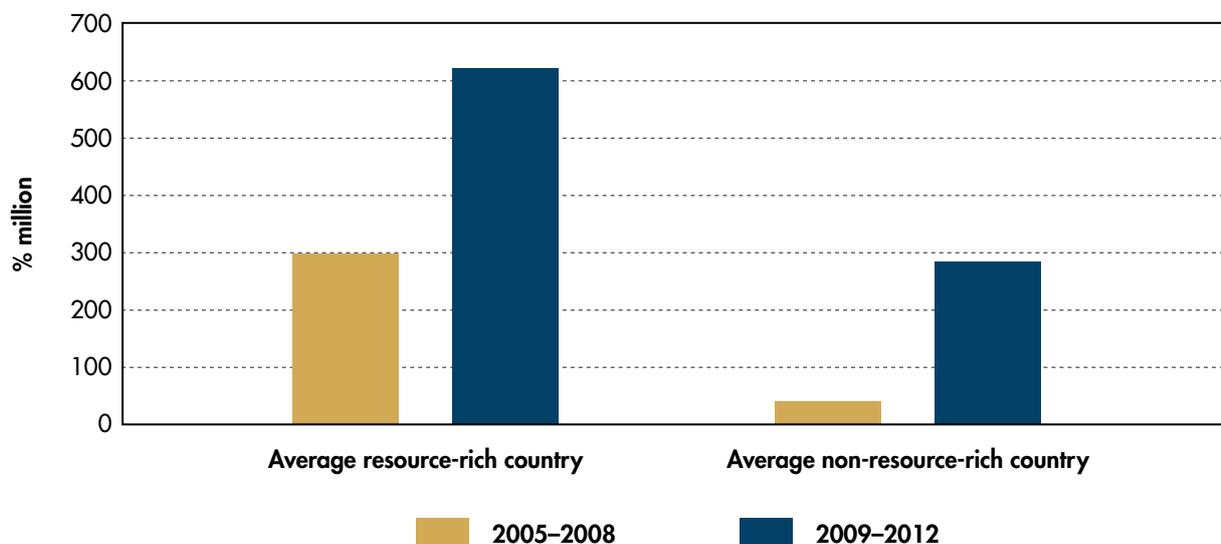
Keeping in mind the structure and nature of FOCAC, Chin²⁷ states that ‘Beijing has come to realise that multilateral organisations can legitimise and universalise Chinese interests at a time when China needs to reassure others about the way it will use its newfound powers in the global system’. It has to be noted, however, that China has no overarching strategy when dealing with some of the specific challenges it faces in diverse African settings, and that its engagement is often a matter of ‘crossing the river by feeling the stones’. However, its objective of restructuring the global system has remained constant. China’s resolve in pursuing its geopolitical goals is evidenced in two major ways.

Firstly, China’s pledges to Africa through FOCAC have increased significantly and have diversified since FOCAC’s inception, despite China’s economic slowdown since the beginning of 2015. It made pledges towards African infrastructure and development projects worth \$55 billion at the December 2015 Johannesburg forum, of which \$35 billion will go towards preferential loans, export credits and concessional loans; \$5 billion will go towards the China–Africa Development Fund – a private equity and venture capital initiative by the China Development Bank – and a further \$5 billion is to be reserved for loans for the development of African small and medium enterprises.²⁸ At FOCAC VI China recognised the need for beneficiation and manufacturing in Africa for the first time, and \$10 billion will be made available for a China–Africa production capacity co-operation fund. This fund will invest in sectors such as manufacturing, technology, agriculture, energy, infrastructure construction and finance in African countries.²⁹ This widening of FOCAC’s scope indicates that Beijing recognises that Africa’s favourable demographics, urbanisation, growing middle class and improvements in transport and electricity infrastructure are making it an increasingly attractive destination for investment.³⁰ However, FOCAC’s financial pledges are no guarantee of actual loans’ being extended, as they are still subject to conditions such as the feasibility of proposals and the likelihood that these projects can be completed within a reasonable timeframe.³¹

China has also shown continued resilience in its engagement with both resource-rich and non-resource-rich countries in Africa. Subsequent to the FOCAC meeting, China agreed to a \$6 billion loan to Nigeria in April 2016 for infrastructure construction, even though Nigeria’s public finances have suffered heavily due to the drop in oil prices.³² Furthermore, while China’s investment in resource-rich countries doubled between 2005 and 2012, its investment in non-resource-rich Africa increased by a factor of seven between 2005 and 2012 (Figure 1). This is a clear indication that there are broader strategic objectives behind China’s infrastructure investments in Africa.

Secondly, while Africa, through the FOCAC initiative, is a major focus of China’s outward FDI and development aid initiatives, it is only one regional component of China’s broader goal of multilateral regionalism in the developing world, in which it employs infrastructure projects as instruments of economic statecraft.

FIGURE 1 CHINESE INFRASTRUCTURE INVESTMENT COMMITMENTS TO RESOURCE-RICH VERSUS NON-RESOURCE-RICH SUB-SAHARAN AFRICAN COUNTRIES, 2005–2012 (\$ MILLION)



Source: Gutman J, Sy A & S Chattopadhyay, 'Financing African Infrastructure: Can the World Deliver?', Brookings Institute Global Economy and Development, March 2015, http://www.brookings.edu/~media/Research/Files/Reports/2015/03/financing-african-infrastructure-gutman-sy-chattopadhyay/AGIFinancingAfricanInfrastructure_FinalWebv2.pdf, accessed 10 June 2016

China's other regional initiatives that incorporate both a strong infrastructure development agenda and calls for international political co-operation include:

- The China–Arab States Cooperation Forum (CACF), which is China's regional bilateral co-operation forum with the nations of the Arab League. The seventh such forum met in Doha on 12 May 2016. This iteration of the Doha declaration emphasised Arab support for China 'to peacefully settle territorial and maritime disputes with concerned countries through friendly consultation and negotiation in accordance with bilateral agreements and relevant regional consensus, and stresses the rights entitled to sovereign states and State Parties of the United Nations Convention of the Law of the Sea to choose dispute settlement ways independently'.³³

During the previous CACF session in Beijing in 2015 China also lent its support to the Arab League for 'an independent Palestinian state', distinguishing itself from the Western support for Israel. It is also important to note that China's 'One Belt One Road' initiative has key stops in the Middle East, as the proposed overland route would pass through Iraq and Syria while the maritime route crosses the Gulf of Aden and the Red Sea. The forum also saw \$15 billion in loans for infrastructure construction for oil and gas exploration and industrialisation.³⁴ Again, as with its involvement in Africa, China has aligned itself with the core geopolitical and development objectives of Arab nations in support of its own global aspirations.

- The Shanghai Cooperation Organisation (SCO), the most comprehensive of China's regional forums, is an annual multilateral regional co-operation organisation comprising Central Asian and Eurasian nations. The forum held its 16th meeting in Uzbekistan from 23–24 July 2016. The SCO, founded in 2001, is the primary vehicle for regional co-operation in Central Asia and is a re-branded version of the Shanghai Five (founded in 1996) with the inclusion of Uzbekistan in 2001. The Shanghai Five was initially created with the signing of the Treaty on Deepening Military Trust in Border Regions by China, Russia, Kyrgyzstan, Tajikistan and Kazakhstan. However, the mandate soon expanded to include military, economic and cultural exchanges. Co-operation under the framework of this forum led to a 100-fold increase in trade in the region. It also resulted in numerous co-operation agreements, ranging from joint security frameworks such as the Regional Anti-Terrorism Structure to economic agreements under the Silk Road Economic Belt and cultural exchanges (including the training of government officials and the provision of scholarships).

Much as with FOCAC, Xi stated during the 2014 meeting that 'SCO members have created a new model of international relations – partnership instead of alliance'.³⁵ Within this framework China has ensured security within and around its restive Western province of Xinjiang in exchange for a package of infrastructure deals (initially funded by the \$40 billion Silk Road Fund) that include road, rail, and energy and electricity infrastructure. These projects are likely to be financed by new financial institutions such as the BRICS New Development Bank (NDB) and the Asian Infrastructure Investment Bank. This will further bolster China's image as a reliable development partner in a region facing declining investments from traditional partners such as Russia and the US.

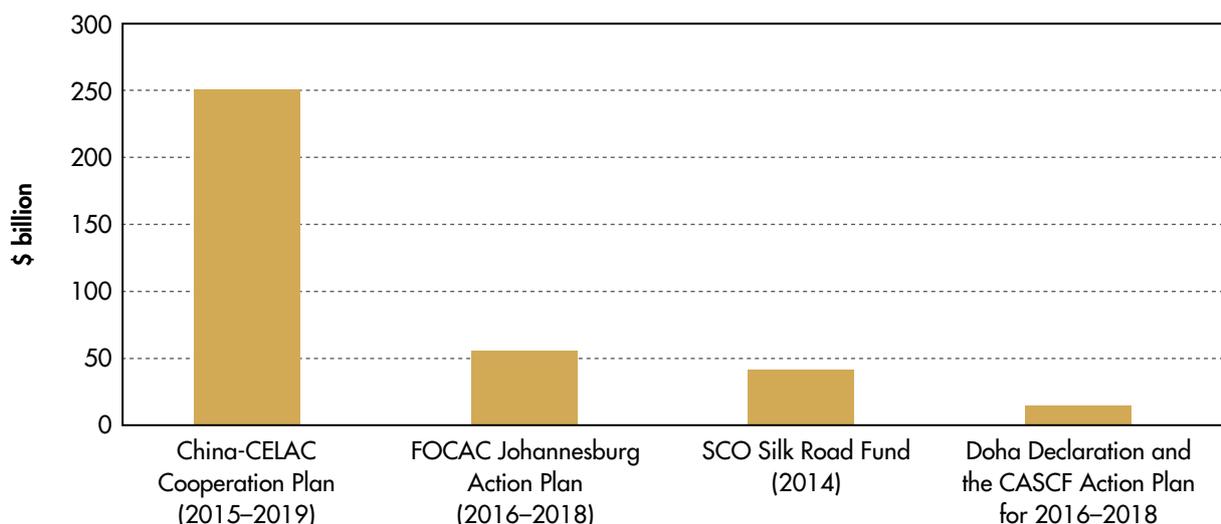
- The first Forum of China and the Community of Latin American and Caribbean States (China-CELAC) ministerial, which met on 8 January 2015, is China's answer to fostering multi-bilateral relations between itself and CELAC states.³⁶ Similar to FOCAC and the SCO, albeit much younger – this forum aims to promote South–South co-operation under the five-point framework of the 'Bandung Spirit'. Apart from pledging to co-operate on a range of economic and development matters, Xi said that 'the current world is a world under changes, a world with constant new opportunities and new challenges, a world under profound adjustment of international systems and international orders, and a world with the international power structure profoundly changing in the direction conducive to peace and development'.³⁷ At the same forum, Zhang Xiangchen, China's Assistant Minister of Commerce, stated: 'Latin American countries are launching a new wave of infrastructure construction. Improving South America cross-border interconnection has become a common goal of the region.'³⁸ Xi subsequently pledged \$250 billion in investment stock to CELAC countries.³⁹ This again highlights China's desire to reshape geopolitical norms through consensus building and employing its economic statecraft in regional development initiatives.

Africa, although important, is only one component of China's broader regional co-operation initiatives

These forums all share two significant characteristics: China's support for the development of regional infrastructure and a strong emphasis on reshaping the current international relations order. As with FOCAC, in the past two years China

has pledged to provide these regions' integration and industrialisation initiatives with financing and expertise; once again indicating its use of economic statecraft to build consensus around its conception of a restructured international relations order, even in the midst of its own economic slowdown. Figure 2 shows that Africa, although important, is only one component of China's broader regional co-operation initiatives.

FIGURE 2 CHINA'S LATEST COMMITMENTS TO REGIONAL CO-OPERATION ORGANISATIONS (\$ BILLION)



Source: Author's calculations using the China-CELAC Cooperation Plan (2015–2019), http://repositorio.cepal.org/bitstream/handle/11362/37578/S1421103_en.pdf;jsessionid=583A62E6BDAC2B0064261E5C46E1D922?sequence=1, accessed 22 June 2016; FOCAC Johannesburg Action Plan (2016–2018), http://www.dirco.gov.za/docs/2015/focac_action_plan2016_2018.pdf, accessed 22 June 2016; Silk Road Fund, 'Market orientation, international standard, professional excellence', <http://www.silkroadfund.com.cn/enwap/27363/>, accessed 22 June 2016; Kuwait News Agency, 'Arab-China cooperation forum adopts Doha declaration', 13 May 2016, <http://www.kuna.net.kw/ArticleDetails.aspx?id=2502306&language=en>, accessed 22 June 2016

Others argue that China's continued investment support for Africa and other regions is an effort to counterbalance the economic and political impact of the Trans-Pacific Partnership (TPP).⁴⁰ Should the TPP come to fruition, South-East Asian countries such as Vietnam and Indonesia will have an opportunity to further expand their economic ties with the US, challenging China's dominance in its own region.

CONCLUSION

Although China–Africa relations are premised to a large extent on economic motivations, Africa (the single largest bloc of countries by continent) fits squarely into China's ambition to build consensus, particularly in the developing world, on a 'democratised' global order. Although China's economic slowdown will have some negative externalities on African economies – particularly resource-rich states – its

long-term vision of a ‘reshaped’ global order is likely to ensure consistency and reliability in its economic statecraft on the continent. However, it is possible that China’s investments in the continent will diversify from the extractives sector and related supporting infrastructure to light manufacturing and agro-processing, as well as more consumer-friendly infrastructure projects such as the light railway networks in Ethiopia. In this regard, it would benefit China and African countries to co-operate on regional integration projects to improve intra-African trade. This could enable African countries with fewer resources to reap the benefits of economies of scale, which in turn would make a more compelling case for investors to relocate manufacturing to Africa.⁴¹

On the African side, it is important to streamline engagements in terms of infrastructure development. As the China–Africa relationship transitions from a resource-exporter/donor relationship it is increasingly important that African countries develop not only their hard infrastructure but also their soft infrastructure capacity to maintain, service and expand these projects in the absence of a ‘donor’ state. This can be done through more robust, demand-driven China–Africa capacity-building initiatives. These should combine China’s academic exchange and scholarship pledges with local development initiatives, as mentioned in article 4.3 of the FOCAC VI Johannesburg Action Plan (2016–2018).⁴²

African policymakers should also be aware that China’s new economic realities are likely to prompt increased conservatism among its investors. Public and private sector Chinese investors are increasingly likely to invest in countries with stable political and regulatory environments, and in projects that have undergone comprehensive feasibility and environmental impact studies without complications around land use or ownership.

African countries could also seek to diversify financing options for infrastructure projects through new financing institutions such as the NDB, as well as China’s collaborative fund with the African Development Bank – the Africa Growing Together Fund. These institutions offer opportunities for African countries to integrate their development initiatives with those of China, while providing the institutional mechanisms for better strategic engagement with China. Doing so will also ensure less reliance on a single partner, and therefore less risk of economic downturns negatively affecting long-term infrastructure projects such as the LAPSSET Project and other infrastructure initiatives contained in the AU Agenda 2063 such as the ‘Connecting the Capitals’ initiative.

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