

Is The Financial Crisis Playing Against China In Africa?

Introduction

Since they have become major players in Africa, thanks to their impressive growth pace and contrary to what officials of both countries claim, China and India have entered into a fierce battle to win Africa's oil and resources. And despite the current economic recession, it has seemed nothing would stop the two Asian Drivers from consolidating their positions on Africa. While in Bamako during his last African tour at the beginning of this year, Chinese leader Hu Jintao made it clear that his country would keep its promises in terms of aid and investment in Africa. But the financial crisis has also hit Africa. Commodities prices, which represent the major source of income for many countries, have collapsed dramatically due to a weak demand from Western countries. Against this backdrop, we learn from the 2010 African Outlook Report ¹that some oil- and mineral-exporting countries such as Angola and the Democratic Republic of Congo have fallen into negative growth in 2009, dropping at -4.5% for Angola and -0.6% for the DR Congo. An OECD report, made public on May 11, 2009 in Paris, pointed out that this situation has led to major setbacks for two emblematic Chinese projects in Africa. The \$3.3 billion Sino-Nigerian cement deal has been suspended, while the 9 billion-USD deal concluded between DR Congo and China has hit a roadblock².

For the last five or six years, China's inroads into Africa have spurred passionate debate among academics and geo-strategists in the West and in Africa. Day after day, articles and analyses have monitored China's trophies in Africa. This general euphoria has been fueled by the formidable growth recorded by China's economy, which for more than two decades has experienced double-digit growth while rich countries were struggling not to fall into recession. In order to keep up this pace, China needs to secure its supplies of energy and other resources. Thus it has joined the line of countries already shopping in Africa. The

problem is that analyses and projections of the future of China's African safari were all based on the assumption that the Chinese economy would continue to grow at the same rate. Unfortunately, this is far from being the case today. As the Chinese economy is also slowing down, one can reasonably wonder if the Chinese will still be capable of meeting their important commitments in Africa and in particular, to what extent the global economic crisis will affect Beijing's core interests on the continent.

One of the reasons China gives when fending off criticism of Beijing's resource policy in Africa is that, unlike other countries, China, by paying "the right price" through "normal commercial negotiation," is providing African countries with resources they desperately need for their development.³ These normal commercial negotiations are unfortunately at the heart of the problem in DR Congo. In the face of a particularly difficult economic conjuncture owing mainly to the downward slump in copper and other mineral prices, the country needs desperately to ink a Poverty Reduction and Growth Facility (PRGF) with the International Monetary Fund (IMF) to get relief for its already unbearable debt service. In order to rehabilitate the country's infrastructure and give a kick-start to an economy torn apart by decades of Mobutu's mismanagement and years of civil war, President Kabila's government signed a huge 9 billion-USD infrastructure-for resources-deal with China in 2007.⁴ While it is clear to all parties concerned that such a deal represents a major source of funding that no other donor can provide, critics, led by the IMF, are deeply concerned about some specific provisions of the deal.

Another Diktat from the IMF ?

In the statement released at the conclusion of his recent visit to DR Congo, the Managing Director of the IMF, Dominique Strauss Kahn, highlighted how crucial the China deal is to the conclusion of any PRGF with DR Congo: "Before the IMF Executive Board can consider a new program for the DRC, a positive solution to the issue of the Sino-Congolese

agreement and financing assurances of the Paris Club are needed.”⁵ The positive solution Straus Kahn refers to here is a consistent assessment of the implications of the China-Congo deal for the debt sustainability of the country. To this end, the IMF has put forward three conditions: China should make its loan concessional; the state financial guarantees provided to the Chinese consortium, which confer to China a de facto privileged creditor status, should be cancelled; and a comprehensive appraisal should be carried out to prove that mineral reserves committed in the deal cover the actual cost of infrastructure. For its part, the Paris Club, which is made up of official creditors of the country, is not keen to write off a debt in order to open the door for DRC access to loans from China on commercial terms.⁶

Kinshasa authorities have great hopes for the deal. To them, it represents the first time the country’s rich mineral resources could be transformed into tangible development. Unfortunately, the economic situation has changed since the deal was made, when copper prices were skyrocketing; the Congolese government never imagined that a few months later it would face serious difficulties, making it hard even to meet basic expenses of the state such as civil servants’ salaries. Actually, this is not the first time that an African government has had to deal with the hostility of the IMF in particular and the West in general on deals concluded with China.

The Angola Precedent

After its 27-year civil war ended in 2002, Angola expressed its desire to formalize relations with the IMF by concluding a financial agreement. When negotiations stalled over the issue of revenue transparency, Beijing proposed to lend Luanda 2 billion USD with low interest rates, long maturities, and last but not least, no scrutiny over oil revenue. The move spurred an array of critics, mainly from the West. Many blamed China for caring only for its own interests and, in so doing, jeopardizing efforts of the international community to promote good governance in Africa. However, according to Erica S. Downs, it is not the Chinese

money but the soaring price of oil and oil production that primarily caused the Angolan government to lose interest in the IMF. She argues that Angolan oil production increased from 742,000 barrels per day in 2001 to 1.4 million barrels per day in 2006 and that during the same period, the price per barrel rose from \$26 to \$66, making it possible for Luanda's revenue to increase from \$7 billion to \$34 billion.⁷ Kinshasa is not as lucky as Luanda; if the latter was able to out-manuever the IMF thanks to its coffers full of petrodollars, Kinshasa's encounter with the Bretton Woods institution is particularly ill-timed, as coffers are simply empty.

But beyond the legitimate concern over the necessity for making resource exploitation transparent in Africa, in the interests of the development and well-being of African countries and their people, it goes without saying that the IMF-DRC battle is just an episode in the fierce battle of Western countries' opposition to China's interests in Africa. In the midst of a global financial crisis, the Congolese issue represents, without doubt, a serious test to China's ambition on the continent as it begs the question of whether Beijing has enough political capital to shape the debate towards its desired outcome.

The Chinese Response

It is an understatement to say that China's inroads in Africa have never been warmly welcomed. This is perfectly understandable from the Western countries' perspective since if China is to expand in Africa it is surely at their expense. However, we are hearing more and more African voices also casting doubts about the actual motives of Beijing for the continent. Chinese authorities insist on their ambition to promote a win-win partnership, contrary to the West, whose relationship with the continent has always been based on "force and cheating" as Lu Shaye, China ambassador to Senegal, puts it. Here the argument is that through the diversification of partners, African countries have acquired important bargaining leverage. For example, it is unlikely that, in the absence of Chinese competition, Niger could have been

in position to obtain higher prices from the French's Areva for its uranium. In 2007, President Mamadou Tanja cancelled the exclusive permit for uranium exploitation that Areva had been enjoying since Niger's independence. In 2008, Areva was obliged to agree to pay 50% more than it was paying in an effort to curb the growing Chinese ambition in the country. The French company was eventually given the right to develop and exploit the huge Imouraren mine, the biggest in Africa.⁸ Richard Dowden, one of those who believe that aid alone is not the solution to Africa's problems, highlights another positive aspect of Chinese engagement in Africa. For him, Chinese interest in African resources "has brought a great deal of infrastructure—refurbishing ports, railways, roads—something Western countries have not done for a couple of decades."⁹ From this perspective, the Chinese argue that their critics are being unfair. They believe that Western countries that have always been in Africa, without delivering any positive good for Africans, are using their dominant position to block China from also prospering in Africa. And they have no doubt that the IMF is taking advantage of the tough financial difficulties faced by Kinshasa to impose unbearable conditionalities on the country. Wu Zexian, the Chinese ambassador to DRC, even considers the IMF-led criticism of Sino-Congolese deal "blackmail.... We cannot accept that. It's discriminatory."¹⁰

Implications

With two of its largest projects suspended in Nigeria (the \$8.3 billion railway construction project linking Lagos and Kano, and recently the cement construction plan) and the now almost compromised deal in Congo, is Beijing starting to realize the limits of its African strategy? This stato-centric strategy has given little consideration to, and even marginalized, other African strategic partners. While it may be certain that Africa needs China's investments, it is still too early for it to turn its back on its Western donors. China needs to integrate this aspect into its African projections and adopt a more multilateral

approach, for instance by joining the community of donors for more coordinated action. A strategy that seeks to associate with the burgeoning African civil society can help Beijing to fend off suspicion of corruption that is rightly or wrongly associated with any moves it makes in relation to the continent. The fact that the railway project was suspended because the new Nigerian administration was skeptical about the terms of infrastructure for oil contracts signed by Obasandjo's team¹¹ makes it imperative for China to adopt a more aggressive posture on the transparency issue. The future of China's African safari will depend essentially on convincing people, Africans and others, that Beijing has nothing to hide, and that its intentions are sincere.

The least one can say is that the Congo issue represents an ideal case study for China's African strategy. Other African countries will definitely draw lessons from this experience. There is no doubt that China's quest for resources in Africa is at a crucial crossroads. If the Congolese deal experiences a major setback, this will surely have an impact on the momentum China has been enjoying for six years now. After all, if the biggest Chinese investment within the framework of infrastructure-for-resources fails, similar deals elsewhere in Africa will be affected by the knowledge that all oil- and metal-rich countries are not immune from a sudden fall in commodities prices.

The other issue at stake here is how developed countries should engage China in Africa. As Lenni Widl and David Mephram¹² put it, any policy that consists in systematically isolating China is counter-productive because it is likely to lead to more entrenchment from the Chinese side¹³. If Western countries want China to become a responsible stakeholder in the international arena, they will not achieve this goal by imposing Western values on China. By providing comprehensive support to Africa's own reformers, they can become a pressure group strong enough to hold China accountable for its actions regarding Africa. Moreover, the most effective way to persuade China to act responsibly in Africa is to lead by example.

Western companies are also involved in all sort of corrupt practices or unfair trade in Africa on a daily basis. The challenge therefore is to see how far their governments are willing to go, even at the peril of their own interests, to make sure this does not happen

Conclusion

Kinshasa, which needs both the IMF and China and cannot afford to lose either of them, is now caught between two fires: the necessity of securing debt relief on one hand and allowing the Chinese deal to go forward as planned on the other. Its challenge will be to devise a strategy capable of achieving these two goals. The bottom line is that the IMF could hardly have been in a position to challenge the deal if the copper price hadn't collapsed. And based on this, one can ask if the financial crisis is not working against China on the African front.

Endnotes

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¹² Leni Wild and David Mephram (eds), *The New Sinosphere: China in Africa*, Institute for Public Policy Research London, 2006, pp.66-69

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