
By Janet Eom, Jyhjong Hwang, Ying Xia, and Deborah Brautigam

In early December 2015, Chinese and African officials met in Johannesburg at the sixth Forum on China Africa Cooperation (FOCAC) meeting.

The 2015 FOCAC summit took place amid news reports of China’s economic slowdown, and concerns over how Africa would be impacted. In this policy brief, we situate the sixth FOCAC meeting in the context of China’s evolving economic relationship with the African continent.

China-Africa Trade

Bilateral trade between China and African countries had been increasing steadily for nearly 10 years (Figure 1). Between 2004 and 2009, Africa’s trade with China enjoyed an annual growth rate over 40 percent. However, growth rates have slowed sharply in recent years, averaging only 10 percent per year since 2009 (Figure 2). As of 2015, China’s top African trade partners were South Africa, Angola, Nigeria, Egypt, and Algeria. Between 2004 and 2014, crude oil dominated Chinese imports from Africa, followed by iron ores and copper products (Figure 3). Roughly 15 percent of China’s imported oil in 2013 came from Angola, second only to 20 percent from Saudi Arabia. Around 90 percent of Chinese imports from Sudan and South Sudan has been crude oil.

With the diving of China-Africa trade, African exporters of natural resources have been especially hard hit, raising questions about their ability to service growing debt. Because commodity prices have dropped—sometimes sharply—the value of African exports has fallen. In the first quarter of 2015, for example, Chinese imports of African iron ore were down by 55 percent compared with Quarter 1 of 2014, while oil was down...
50 percent and copper, 39 percent.

Provisional figures show that China-Africa trade in 2015 fell by 40 percent to US$179 billion, well below the 2014 record of US$222 billion.

**CHINA-AFRICA LOAN FINANCE**

Our in-house database of Chinese loans to African countries shows that Chinese finance to Africa rebounded vigorously after the financial crisis (Figure 4). China Export Import Bank (Eximbank) has been providing export credits and concessional loans since the mid-1990s. The Ministry of Commerce (MOFCOM) offers foreign aid zero-interest loans in smaller amounts. China Development Bank (CDB) is also an increasingly active commercial lender in Africa.

China Eximbank and CDB have sometimes offered large facilities for infrastructure finance (US$1.5 billion to US$2 billion) with commodity exports as security. This model of project finance allowed countries like Angola to pre-commit revenues from oil exports to rebuild war-torn infrastructure. Although some suggest that Chinese banks always require a resource security for their loans, our data suggests that this is not the case. Large lines of credit like this have been limited to a small handful of countries.

**CHINESE FDI IN AFRICA**

The Chinese Ministry of Commerce and the National Bureau of Statistics in China release data on Chinese foreign direct investment (FDI) in Africa every year (Table 1). This suggests that Chinese FDI in Africa remains modest. Other efforts to track Chinese FDI include those by the American Enterprise Institute’s China Investment Tracker, Deloitte, and the Financial Times FDI database. However, SAIS-CARI has found that it is difficult to paint an accurate picture of Chinese FDI.

<table>
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<tr>
<th>Year</th>
<th>Annual FDI Flows</th>
<th>FDI Stock</th>
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<tbody>
<tr>
<td>2005</td>
<td>392</td>
<td>1,595</td>
</tr>
<tr>
<td>2006</td>
<td>520</td>
<td>2,557</td>
</tr>
<tr>
<td>2007</td>
<td>1,574</td>
<td>4,462</td>
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<td>2008</td>
<td>5,491</td>
<td>7,804</td>
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<tr>
<td>2009</td>
<td>1,439</td>
<td>9,332</td>
</tr>
<tr>
<td>2010</td>
<td>2,112</td>
<td>13,042</td>
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<tr>
<td>2011</td>
<td>3,173</td>
<td>16,244</td>
</tr>
<tr>
<td>2012</td>
<td>2,517</td>
<td>21,730</td>
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<tr>
<td>2013</td>
<td>3,371</td>
<td>26,186</td>
</tr>
<tr>
<td>2014</td>
<td>3,202</td>
<td>32,350</td>
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</tbody>
</table>
Some non-Chinese sources overestimate FDI because they rely on media reports of projects that may never come to fruition. Chinese sources likely underestimate, as they cannot easily include Chinese capital coming into Africa from an offshore financial center (British Virgin Islands, Cayman Islands, Hong Kong), smaller investors, and acquisitions that include African assets, but that took place in another jurisdiction.

Evidence from China suggests that the number of FDI projects registered with MOFCOM has dropped from 532 in 2013 to 311 in 2014 (Figure 5). A May 2015 MOFCOM press release stated that China’s FDI flows to Africa “reached US$530 million in the first quarter, down by 45.9 percent year on year.” The drop may be due to commodity investment becoming less profitable. However, MOFCOM also noted that FDI to Africa was expected to pick up after the FOCAC 2015.

Figure 5: Number of Approved Chinese FDI Projects for Africa, 2000-2014

![Graph showing number of approved Chinese FDI projects from 2000 to 2014.](image)

**HIGHLIGHTS OF THE 2015 FOCAC SUMMIT**

In Johannesburg, Chinese President Xi Jinping surprised many observers by dramatically increasing the scope of funding pledges. (Appendix 1 provides an overview of triennial FOCAC commitments since the organization’s launch in 2000.) After noting that Africa’s development bottlenecks consisted mainly of inadequate infrastructure, lack of professional and skilled personnel, and funding shortages, Xi rolled out 10 plans for China-Africa cooperation:

1. **Industrialization.** Includes industrial parks, regional vocational education centers, and capacity-building schools. China will also train 200,000 technical personnel and provide 40,000 training opportunities for African personnel in China.

2. **Agricultural modernization.** Emphasizes technology transfer, value chains, new large investments, 100 village projects, and “10+10” research cooperation twinning 10 Chinese and 10 African institutes.

3. **Infrastructure.** Focuses on “mutually beneficial cooperation in planning, design, construction, operation, and maintenance.” Emphasizes railways, roads, regional aviation, ports, electricity, and telecoms, and supporting African countries in establishing five transportation universities.

4. **Financing.** The two sides will increase banking cooperation and use of the RMB in trade settlement.

5. **Green Development.** China will fund 100 environmental projects, including wildlife, clean energy, and smart cities.

6. **Trade and Investment.** Includes 50 “aid-for-trade” programs, encouraging free trade agreements, and building law enforcement capacity for customs, quality inspection, and taxation. Will also promote greater cooperation in standards, certification, and e-commerce.

7. **Poverty Reduction.** Focus on 200 “happy life” projects for women/children, and cancellation of overdue parts of zero-interest loans.

8. **Public Health.** China will continue to send medical teams and will build an African Center for Disease Control (CDC). Cooperation will “twin” 20 Chinese and 20 African hospitals. More artemisinin will be donated, and local drug production by Chinese companies encouraged.

**CARI Fact-Checking: Hydropower Projects**

CARI uses its loan database to track the destination, sector, and quantity of Chinese finance. This enables us to provide a more evidence-based understanding of Chinese engagement, countering errors that can sometimes be significant. For example, on October 26, 2015, *The Conversation* published an article stating that “the Chinese have helped build about 300 massive dams in Africa.” SAIS/CARI published a policy brief on this issue in May 2015. We were able to identify only 17 “massive” (i.e., over 50 MW) hydropower projects in Africa financed by the Chinese between 2000 and 2013, with a further seven built by Chinese firms and financed by others. A thorough case-by-case investigation leads to a more realistic representation of Chinese activity, which can ultimately yield more informed policy outcomes.
(9) **Culture and People-to-People.** China will build five cultural centers and provide satellite TV to 10,000 villages. Will also provide scholarships and training—2,000 educational opportunities with diplomas or degrees and 30,000 government scholarships—and will train 1000 media personnel.

(10) **Peace and Security.** Provision of a US$60 million grant to build an African Standby Force and African Capacity for the Immediate Response to Crisis. Capacity building will focus on defense, counterterrorism, riot prevention, customs, and immigration control.

To fund these and other programs, China will provide US$5 billion in grants and zero-interest loans, and US$35 billion in a combination of preferential loans and (non-preferential) export credits and concessional foreign aid loans. President Xi also pledged to add another US$5 billion to the China-Africa Development Fund (so the CAD-Fund will now be expected to eventually reach US$10 billion) and increase the China Development Bank-funded African Development Special SME (small and medium enterprise) Loans by another US$5 billion (this was originally set up at US$1 billion). Finally, he pledged to set up a new China-Africa Industrial Cooperation Fund with US$10 billion, although it is not clear if this fund will provide loans, grants, equity or some mix of all three.

While Xi Jinping’s speech implied that many of these programs will be launched over the next three years, experience tells us that many will be rolled out over a much longer time frame. Construction, for example, takes at least three years, and creating operational programs perhaps another three after that. There is no specific timeline on the CAD-Fund increase or the new China-Africa Industrial Cooperation Fund.

**CARI COMMENTS**

- **Capacity.** Shipping Chinese trainers to Africa has not gone over very well in the past. Ethiopia had to bring in Germans to replace the Chinese instructors at its Chinese-built vocational-technical college. Beijing will need to think strategically about how to build up the African expertise for teaching all these students “how to fish.”

- **Environment.** China is continuing to emphasize a more “green” approach to Africa. This is good rhetoric, but will it influence practice?

- **Industry.** The deeper emphasis on manufacturing is very welcome and something we expected, given all of the discussion about Chinese offshoring lower cost manufacturing to Africa over the past several years.

- **Debt cancellation.** The Chinese pledged to cancel the overdue portion of interest-free loans provided to low-income African countries. This is not a broad debt cancellation for all Chinese loans to low-income countries, but instead refers only to a special and relatively small category: “zero-interest” foreign aid loans. Since 2000, the Chinese have regularly cancelled overdue zero-interest loans that countries are unable (or simply unwilling) to pay.

- **Absorptive capacity.** It could take more than three years to commit US$35 billion in new loans. Some countries are having trouble absorbing the Chinese loans on offer over the past three years. With lower prices for their exports, these loans will be harder to repay. Perhaps Chinese commodity forecasters see rosier numbers starting five years down the line, when the grace periods for the first loans will start to expire?

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<tr>
<td>Beijing</td>
<td>Addis Ababa</td>
<td>Beijing</td>
<td>Sharm el-Sheikh</td>
<td>Beijing</td>
<td>Johannesburg</td>
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<td><strong>Financial commitments</strong></td>
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<tr>
<td>Debt cancellation of up to RMB 16 bn for HIPCs and LDCs counties within 2 years</td>
<td>Continue increasing assistance for African countries (no figures provided)</td>
<td>Double aid to Africa by 2009</td>
<td>Provide US$10 bn in concessional loans</td>
<td>Provide US$20 bn credit line for development of infrastructure, agriculture, manufacturing, and small and medium-sized enterprises</td>
<td>Offer African countries US$35 bn of concessional foreign aid loans, preferential loans, and non-preferential export credits</td>
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<td><strong>Trade and investment</strong></td>
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<td>• Give preference to import of African products “in the light of demands and conditions of the Chinese market”</td>
<td>Grant tariff-free access to some commodities from LDCs</td>
<td>• Provide US$3 bn as concessional loans, US$2 bn as preferential buyer’s credits within 3 years</td>
<td>• Provide RMB 300 mn (ca. US$40 mn) for artemisin (anti-malaria drug)</td>
<td>• Scale up China-Africa Development Fund to US$5 bn</td>
<td>• Provide US$5 bn in grants and zero-interest loans</td>
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<td>• Ensure operation of Investment and Trade Promotion Centers by China in Africa and assist African states to set up similar entities in China</td>
<td>Provide special funds to support Chinese investments in Africa</td>
<td>• Provide RMB 300 mn (ca. US$40 mn) for artemisin (anti-malaria drug)</td>
<td>• Cancel debt associated with interest-free government loans due to mature by the end of 2009</td>
<td>• Expand the Special Loans to Support SMEs in Africa from US$1 bn to US$6 bn</td>
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<td><strong>Capacity building</strong></td>
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<td>Train up to 10,000 African personnel in various fields within 3 years</td>
<td>Train up to 10,000 African personnel in various fields within 3 years</td>
<td>Train 10,000 professionals in various fields</td>
<td>Train 20,000 professionals in various fields</td>
<td>Train 20,000 professionals in various fields</td>
<td>Train 1,000 African media professionals each year</td>
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<td><strong>Cultural cooperation</strong></td>
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<td>• Sponsor art festival on African arts and Chinese cultural presentation in Africa</td>
<td>• Hold China-Africa Youth Festival in China in 2004</td>
<td>• Launch China-Africa science and technology partnership, carry out 100 joint demonstration projects on science and technology research, receive 100 African post-doctoral fellows in China</td>
<td>• Launch China-Africa joint research and exchange program</td>
<td>• Launch China-Africa Friendship schools and train 1,500 school principals; increase government scholarships to Africa to 5,500 within 3 years</td>
<td>• Offer 30,000 government scholarships to African countries; 2000 scholarships for degrees in China</td>
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<td><strong>Infrastructure</strong></td>
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<tr>
<td>• Build AU conference center</td>
<td>• Build 100 rural schools</td>
<td>• Build 30 hospitals</td>
<td>• Build 50 China-Africa Friendship schools and train 1,500 school principals; increase government scholarships to Africa to 5,500 within 3 years</td>
<td>• Launch “Initiative on China-Africa Cooperative Partnership for Peace and Security,” deepen cooperation with AU and African countries in peace and security, provide financial support for AU peacekeeping and development of African Standby Force, train peace and security officials</td>
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*SAIS-CARI POLICY BRIEF | NO. 09 / JANUARY 2016*
ENDNOTES


2. Ibid.


9. MOFCOM Registration of Foreign Investment Projects, coded by SAIS-CARI.


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