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HD **China's big Africa play**

BY Andrew Clark
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Resources China's iron ore prospects in Africa are growing, and that could have major implications for Australia, writes Andrew Clark.

In the recent outbreak of the deadly ebola virus, many of the 157 deaths in Guinea, West Africa occurred in the same region where Rio Tinto has mining rights over the world's richest undeveloped iron ore deposit.

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At the same time as the terrible news emerged, spectacular claims of theft, fraud and bribery, complete with Bond film-like diamond-encrusted watches and model cars, were aired during United States court hearings in which Brazilian iron ore mining giant Vale and Israeli billionaire Benny Steinmetz were accused of stealing half of Rio's Guinea tenements.

Barely noticed amid this horror and corruption is the fact Rio's partner in plans to develop the 1.8 billion tonne Simandou ore body is Chinalco, or the Aluminium Corporation of China – the same company Rio rebuffed from taking an 18 per cent stake five years ago.

Rio was then valued at $19.5 billion. The development cost of Simandou, including the mine, a 650-kilometere railway and a deep-water port, is estimated at a tad more than that. Chinalco is reinforcing – this time in Africa – China's long-standing strategy to secure access to raw materials crucial for its economic growth by getting close to Rio, the world's third-biggest mining company. Once it achieves full production, the Simandou mine plans to export about 100 million tonnes of iron ore a year to China.

The project crystallises the Africa's problems of corruption, disease and political instability but also its opportunities of abundant raw materials and cheap labour. It points to the pivotal role China plays in the continent and helps its emerging superpower status by giving it access to raw materials ranging from iron ore to uranium to oil and food ranging from wheat to rice to fish.

Rio has certainly secured the state-owned Chinalco's involvement in Simandou because of the huge costs involved and to shore up iron ore exports to China. But the tie-in also reflects the underlying reason for China's astonishing success in pursuing its African strategy since the start of the millennium. Chinalco will ensure highly competitive Chinese construction firms build the 650 kilometre railway track to transport iron ore from the mine to the sea, develop thousands of kilometres of sealed roads and erect a large deep water port south of Conakry, capital of Guinea.

Examples of China's infrastructure prowess in Africa abound, from a new deep water port in Kenya to the growth of the five-nation East African Community; to new railways in the region; to roads and hospitals in Guinea-Bissau; to new suburbs in Luanda, the capital of oil-rich Angola.

Despite hand-wringing in Western capitals about China's "pragmatism" in Africa, and learned articles condemning its "opportunistic" grab for the continent's resources, there is a long list of new roads, hospitals, airports, power stations, railways and schools springing up with billboards featuring Chinese aid organisations, vaguely-defined Chinese NGOs and Chinese companies that may, or may not, include state money. They are providing an infrastructure that can underwrite Africa's emergence from half a century of mendicant state status and a tragic litany of wars, starvation, pestilence and rampant corruption.

From a paltry $US1 billion ($1.08 billion) in bilateral trade 35 years ago, Chinese-African trade and investment flows have risen an astonishing 200-fold. While the recent focus around the world has been on China's aggressive disputes with Japan, Vietnam and the Philippines over competing claims in the South China Sea, it is strengthening its grip on resources and political goodwill in an Africa with abundant reserves in oil, gas, iron ore, coal, copper, gold, diamonds and uranium, plus enormous potential to contribute to global food security.

The word "infrastructure", with its bland, general connotations, fails to adequately communicate the significance of these developments for Africa. According to Gilles Guerard, managing director of the African Ecobank in Rwanda, China is leading an Africa-wide infrastructure renewal after decades of neglect following the end of the colonial era.

"Everything collapsed" after the colonial period, says Guerard, speaking on the fourth floor of Ecobank's impressive new building in Avenue de la Paix in downtown Kigali, capital of Rwanda. Now the Chinese is doing the rebuilding and "they are good. They do it cheaply and quickly".

But there are no colonial-style lectures. According to Guerard, the Chinese are saying: "We are not trying to educate you. We are here to do business."

Dealing with African states, the Chinese typically employ a barter system of operation. As an example, Guerard cites a recent agreement between China and the government in the tiny West African state of Guinea-Bissau, sandwiched between Guinea and Senegal. China agreed to build roads and hospitals in return for fishing rights. "But no one knows how much the roads and hospitals cost and no one knows how many fish they are taking out. 'We are going to build you a road.' You have the road but you don't know the value of the road.'"

The Guinea-Bissau example and the problems it throws up are writ large across Africa's 54 states. Chinese Premier Li Keqiang acknowledged during his recent trip to Africa that the relationship between Beijing and its African partners was suffering from "growing pains". This was a vague reference to problems with barter deals, where African states complain about shoddy workmanship, collapsing buildings, opaque arrangements and lack of employment for locals. Corruption is also a major problem.

Delphic acknowledgement of the latter is contained in the recent comment by the head of China's Central Bank, Zhou Xiaochuan, that "there may have been some phenomena of Chinese investors [who were] not so good, not so satisfactory".

But the China/Africa juggernaut rolls on.

As shock spread around the world at the kidnapping of more than 200 school girls in north-east Nigeria by the terrorist Muslim group Boko Haram, Li Keqiang was at the same time addressing the World Economic Forum in Abuja, the Nigerian capital. He pledged a further $US12 billion in Chinese aid for Africa, concluding his four-country tour of Africa with dozens of agreements on trade, energy, investment and development, including "expanded co-operation in infrastructure projects".

In Nairobi, Kenya, for example, Li pledged to construct a $US3.6 billion, 611-kilometre railway line linking Nairobi to Mombasa, the scene of recent terrorist attacks. This will form part of a regional railway system that will eventually extend through Rwanda, Uganda, Burundi and South Sudan. The Export-Import Bank of China will fund 90 per cent of the project while the Kenyan government will cover the remaining 10 per cent.

Li was building on a foundation established in 1996 when then Chinese president Jiang Zemin doubled assistance to Africa. He formed a $US5 billion African development fund, cancelled outstanding debt, generated pan-African goodwill by building new headquarters for the African Union in Addis Ababa, capital of Ethiopia, helped create trade and economic zones around the continent, and undertook to build 30 hospitals, 100 rural schools and train 15,000 African professionals.

Since then Fitch Ratings has estimated that China's Export-Import Bank extended $US67.2 billion in loans to sub-Saharan African countries between 2001 and 2010 – $US12.5 billion more than the World Bank. The figures are potentially stratospheric, with the Export-Import Bank of China forecasting last November that by 2025, China will have provided Africa with $US1 trillion in financing, including direct investment, soft loans and commercial loans.

It is hard for outside observers to get a precise handle on the true scale of Chinese involvement in Africa because of the opaque, open-ended nature of barter deals, and a confusing mixture of official aid – about half China's overseas aid budget is devoted to Africa – plus investment by state-run companies, and the countless operations of small Chinese firms and individuals.

There are no official figures for Chinese nationals resident in Africa but some reports suggest more than a million private Chinese citizens – farming, operating small businesses, and running their own construction firms – have settled in the region. Ecobank's Guerard says there are 50,000 Chinese just in the wild, mineral-rich central African state of the Democratic Republic of the Congo. He says there are double that number in Algeria, with its huge reserves of natural gas.

There have also been problems at the Chinese small business level in Africa. The aggressive activities of Chinese traders became an issue in recent Zambian elections and, in echoes of the anti-Chinese riots in the gold rush era in Australia 160 years ago, the Ghanian government has cracked down on small Chinese goldminers.

According to Guerard, major Chinese agricultural companies are buying up huge acreages, sometimes up to 50,000 hectares, for rice and cotton crops in countries like Cameroon, Nigeria, Ghana and Ethiopia, as China veers away from a centuries old self-sufficiency policy for food production. But what happens if those states have a run of bad seasons, but the Chinese insist on exporting their rice straight back to China? "It could be a problem," acknowledges Guerard.

These are the examples that are often cited in western critiques of China's African push. Deborah Brautigan, director of the China Africa Research Initiative at Johns Hopkins University in Washington, has written that "with a few exceptions, there is a strong tendency to assert moral judgments" in assessing China's role in Africa. "China's activities … are often characterised as evil when they are seen as representing China's selfish quest for natural resources and damaging Africa's fragile efforts to improve governance and build a sustainable future. "However, they are characterised as virtuous when they are seen as contributing to a foundation for long-term economic development through infrastructure projects and revenue creation," Brautigan writes.

Meanwhile, China is winning the struggle where it counts – in Africa. In her book, Dead Aid, Zambian economist and former World Bank executive Dambisa Moyo says favourable views of China and its investments in Africa "outnumber critical judgments by at least two to one in almost every [African] country".

More ominously for the West, "in nearly all African countries surveyed more people view China's influence positively than make the same assessment of US influence". In addition, "across Africa, China's influence is seen as growing faster than America's, and China is almost universally viewed as having a more beneficial impact on Africa than does the United States", Moyo writes.

This positive impact of an authoritarian state raises broader issues than just economic development. While many hail an African century as growth rates and living standards rise, what sort of political evolution will occur in Africa? The number of nominally democratic states is rising, but so, too, is the questioning of how compatible the 'African model' is with democracy.

Authoritarian China's can-do approach in Africa is challenging Western democratic systems. Meanwhile, the $US20 billion Simandou iron ore mine project in Guinea has implications for Australia's iron ore exports to China, in which Rio is also a major player. China imports about 75 per cent of its iron ore. Despite the current plunge in iron ore prices, Chinese iron ore consumption in 2016 is forecast to reach 860 million tonnes a year by 2016.

About 8 per cent of China's iron ore imports come from Africa, while Brazil and Australia account for 70 per cent . In future Simandou and at least three other iron ore prospects in Africa will reduce China's dependence on Australia, and could exert a downward pressure on prices for Australia's biggest export.

So Rio and Australia have a major interest in following China's relations with Africa.

CO almcor : Aluminium Corporation of China Limited | rtz : Rio Tinto PLC | craaus : Rio Tinto Ltd

IN i211 : Metal Ore Mining | i2111 : Iron Ore Mining | imet : Mining/Quarrying | ibasicm : Basic Materials/Resources | i22 : Primary Metals | i224 : Non-ferrous Metals | i2245 : Aluminum

NS gcrim : Crime/Courts | gpol : Domestic Politics | ccat : Corporate/Industrial News | reqrmm : Suggested Reading Metals/Mining | gcat : Political/General News | gpir : Politics/International Relations | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

RE china : China | gurep : Guinea | austr : Australia | africaz : Africa | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | wafrz : West Africa

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