Chinese Investment and Diplomacy in Africa

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Abstract:

In recent history there have been many developments in the relationship between the People's Republic of China and the different countries of Africa as the Chinese economy has begun to make a growing presence on the world stage. Different companies in China, whether state owned or private, have initialized foreign direct investment, diplomacy, resource accumulation, and, consequently, the potential for armed conflict in various countries contained in the continent of Africa. Creating the potential for armed conflict is not something that is completely unique to Chinese involvement in African affairs. Africa has the burden of what is considered in international policymaking to be a "resource curse". No matter who invests in any country on the continent there will typically be a local political party seeking to manipulate that investment into an impetus for changing the political environment of their own country, or neighboring countries, for their own benefit. Without the double edged sword of Chinese intervention in the politics and economies of Africa many countries would not be as developed as they are today, while at the same time those same countries may not have seen as much war and genocide in recent history. This paper seeks to define the types of investment by both government and private citizens that are present in Africa. To understand resource accumulation initiated by different Chinese companies this paper will examine two of the most notorious naturally occurring sources of wealth on our planet: coltan and petroleum. In terms of diplomacy this paper will examine the different regimes that the PRC has backed in African nations and try to gather an understanding of the reasoning behind the support. The paper will conclude with descriptions of some of the different armed conflicts that have resulted from Chinese investment in Africa.

Body:

According to Kaplinsky and Morris of The Open University there have been three primary phases of Chinese investment in Africa. The initial phase could be termed as the “third-world solidarity” movement and, “followed the Bandung Conference of Non-Aligned Nations in 1955” (FDIinAfrica.pdf) for “Marxist insurgencies” (ChinaAfricanVentures.pdf). This phase lasted for around 40 years and was characterized by the Chinese ideological fallout with the Soviet Union with China offering, “decolonizing Africa moral and political support, in some cases coupled with limited military support and aid” (FDIinAfrica.pdf). In the second phase, the Chinese used their advantage as a party-state to out-maneuver their rival country’s businesses through coupling investment from state-owned enterprises with, “Chinese-aid-funded projects in infrastructure and public buildings” (FDIinAfrica.pdf). The current phase is a result of the recent growth and acceptance of private businesses in the party-state of China. It has been characterized by, “Chinese citizens who had previously been employed in large-scale SOE activity in Africa and, through various legal and illegal means, had stayed on to become autonomous entrepreneurs” (FDIinAfrica.pdf). In China a business is characterized as “private” if, “the state holds less than 50 percent of the equity” (FDIinAfrica.pdf). However, there are still some state-owned enterprises that are set up purely for the gain of private citizens who happen to have the standing in the Chinese Communist Party that allows them to transcend the laws of their party-state for financial gain. Kaplinsky and Morris effectively summarize this confusing concept in their statement, “ownership in China reflects a complex and dynamic amalgam of property rights” (FDIinAfrica.pdf). Just as the lines between the party and the government are blurred so is the line between the definitions of private investment and foreign direct investment in terms of the beneficiaries.

The different Chinese state-owned enterprises present in Africa can further be categorized into those that represent the central party-state and those that are loyal to a province. Private Chinese companies can be categorized into small and medium-sized entities run either by a company originating in China, an entrepreneur that branched off from a state-owned enterprise, or conceived in Africa using familial or party connections. There is a third category of private companies that includes businesses large enough to compete with state-owned enterprises. The dominant group in this category, both in Africa and worldwide, is Huawei.

There are many different ways that Huawei has been useful to China. The company has access to more capital for better interest rates than most American companies due to the intermingling of the leaders of the company and the leaders of the Communist party of China. This is a result of one of China's most beneficial sources for successful trade deals abroad: state-controlled banks. China Development Bank, one of these state-controlled banks, has helped Huawei on numerous occasions. During December of 2004, China Development Bank, "issued a low-cost $10 billion loan to Huawei…to promote its international operations" (China'sCorporateEngagementInAfrica.pdf). Shortly after acquiring this capital Huawei won major contracts with Nigeria, Zimbabwe, and Kenya for providing cell phone service to these countries. According to Ewan Sutherland of the University of Witwatersrand Huawei has begun to dominate the African telecom market through, "African operators," being, "increasingly drawn to the cheaper equipment, often supported by soft loans from Chinese state-owned banks" (ColtanHuawei.pdf). Huawei has also become a political tool for convincing countries with newly developed resources to set up contracts with Chinese companies, as is evident in the situation with Uganda in 2007. According to researchers at the Society for International Development, after Uganda discovered oil, "there were all indicators that the Chinese Government, through Huawei, is to construct a USD $120 million fiber-optic backbone" (ResourceSwap.pdf). Considering that in 2005 28% of Chinese oil imports came from the African continent (ComingConflictOr.pdf) and that number is only growing, it is easy to see why such tactics are being used by the PRC.

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