China’s Strategic Infrastructural Investments in Africa

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Africa as a Strategic Partner for China

• US invasion of Iraq
• Russia-Japan energy pipeline
• Blocking Japan’s bid for a UN Permanent Security Council Seat
• Political exclusion of Taiwan
• Market space for Chinese exports
• “Going global” strategy i.e. commercial learning
• Attempt to extract the Chinese economy from international commodity markets
Competitive Sectors

• Oil Exploration
• Mining
• Construction
• Banking
• Telecommunications
• Retail – textiles and light consumer electronics
Determinants of Chinese SOE Competitiveness

- Lesser cost engineering inputs between 40-60% cheaper than traditional MNCs
- Low profit margins of >5%
- Lesser supply chain costs
- Relatively cheap and more productive labour force
- Low capital cost
- Coalition investment strategy
Chinese Engagement in Angola

- In 2004, China Exim Bank extended an oil-backed US$2-billion credit line to Angolan Gov, later increased to US$3bn in March 2006
- The loan is payable at 0.25% over 12 years, 5 year grace
- Official loan amount is US$6bn. But independent estimates put figure at US$9bn+
- Infrastructure financing 70% allocated to PRC firms
- Sonangol (45%)-Sinopec (55%) joint venture of Sonangol-Sinopec International.
- Development of Blocks 17 & 18 – multi financiers; Sinopec awarded 3/05 in 1990’s
- Construction of roads, bridges railways, airport, oil refinery, hospitals, housing, water projects & Gov buildings, telecommunications investments
Chinese Engagement in Zambia

- Increased Chinese engagement in Zambia is a direct result of China’s investment in the Chambishi Copper Mine.
- Zambian government view Chinese companies very favourably, despite popular support of Michael Sata’s stance in 2006 elections.
- Projects include Football house, Government buildings, and power and cement plants.
- During President Hu’s Africa tour in February 2007, the Chambishi Copper mine was declared a “China-Zambia Economic and Trade Co-operation Zone”.
- On this tour US$ 800 million in future investments was promised to Zambia.
- Zambia’s economy has soared following rising copper prices due in part to Chinese demand.
Chinese Engagement in Tanzania

• Long history of political relations aid-related projects, dating back to 1960’s with the construction of the Tanzam (Tazara) Railway in 1968-1970.
• Joint-venture co-operation began in 1981
• It was recently announced that negotiations were underway for a Chinese consortium to rehabilitate the Tazara Railway
• Chinese firms state political stability and a perception of less corruption relative to other African countries as investment incentives
• Projects undertaken by Chinese companies include water infrastructure, national soccer stadium, bridges.
• Dar-es-Salaam has been announced as a second economic and trade co-operation zone.
China’s Emerging Strategy

• China is strategically investing in infrastructure to enable the extraction of previously inaccessible resources in Africa – the case of Belinga in Gabon
• Investment in railways across the continent bisects the traditional north-south routes, shifting control away from entrenched role-players in Africa
• China’s emphasis on high public spending on tangible resources appeals to African government elites, facilitating access
• Engagement with economies dependent on natural resources
• Strategically links up natural resource investments
• Prospects for further Economic and Trade Co-operation Zones?
Executive Summary

- A note on FOCAC
- Bilateral vs. multilateral engagement
- Significance of African Development Bank Meeting in Shanghai
- Old Africa vs. New Africa – Which does China support?
- Prospects for an African “China Policy”?
- China’s new risk model for Africa
- Links to China’s ODA strategy for Africa
- China’s “Coalition investment” strategy
- Displacement of traditional corporate players
To download the DFID sponsored study:

*China’s interest and activity in Africa’s infrastructure and construction sectors*

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