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The Strategic Implication of Chinese Investment in Africa

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Thank you to the members of the Subcommittee on Emerging Threats and Capabilities of the Senate Armed Services Committee for the opportunity to testify on the strategic implications of the Chinese investment in Africa. This testimony seeks to answer what types of political, ideological and military interests China pursues in Africa and how China utilizes economic statecraft such as investment to pursue them. It also aims to analyze how China's evolving approach to Africa will affect U.S. national interests.

Traditionally, Africa as a part of the developing country bloc with which China identifies has been regarded as the foundation of China's foreign policy. China's economic statecraft, from the free aid during the Cold War to loans and investment to Africa today, has been an effective instrument to ensure Africa's support of China's multifaceted agenda. Indeed, the popular but erroneous perception that China is solely interested in African natural resources no longer stands today. Twenty years after the launch of the "Going Out" strategy where China encouraged its companies to seek overseas markets and supplies of raw materials, China's engagement strategy toward Africa has become much more sophisticated, expansive, and synchronized. Through its economic engagement, China is pursuing a targeted list of political, ideological and strategic goals in Africa. As China's global ambition grows under President Xi Jinping, Africa is increasingly tied into the Chinese orbit that advocates for a new international order and a community of common destiny.

**The Status of Chinese Investment in Africa**

According to the Chinese Ministry of Commerce, by the end of 2017, China's cumulative investment in Africa had surpassed 100 billion USD.<sup>i</sup> In 2017, China's total direct investment in Africa was 3.1 billion USD, 2.5% of China's global total that year.<sup>ii</sup> The percentage that Africa occupies in China's global foreign direct investment has been fairly consistent in recent years, rarely exceeding 4%. The areas of such investment also cover a broad range of industries, including mining, manufacturing, construction, retail, agriculture, construction, infrastructure, and real estate. In terms of the fora, most of China's government economic pledges to Africa have been made through the Forum on China Africa Cooperation (FOCAC), which takes place every three years and alternates between Beijing and

African capitals. Up until the most recent FOCAC Summit in Beijing in September of 2018, China had had a pattern of doubling or tripling its most recent FOCAC pledge: from 5 billion USD in 2006 to 10 billion USD in 2009, then to 20 billion USD in 2012 and 60 billion USD in 2015. However, in the most recent Beijing Summit this past September, China's financial pledge remained the same as in 2015.

Although the official data suggests a relatively low level of Chinese economic interests in Africa compared to other regions, the reality is far more complex, complicated by the dearth of reliable data. The Chinese official investment data includes only the committed amount of investment during the calendar year rather than the actual disbursed amount. More problematically, the official investment data tends to underreport the actual volume due to its failure to capture investments made by Chinese companies through subsidiaries in offshore financial centers such as British Virgin Islands, Cayman Islands and Hong Kong. Contributing to the understatement of Chinese investment in Africa are the unregistered investments made by small and medium-sized Chinese companies or private individuals, sometimes through their local African partners for tax purposes.

Another caveat of China's economic engagement with Africa originates from the composition of Chinese financial ties with the continent. Indeed, the majority of China's financing to Africa are neither grants nor investments, but loans of various forms. For example, within the 60 billion USD FOCAC financial pledge China made in 2015, the majority of the commitment (35 billion USD) was designated for concessional loans and export credits. Given that only 5 billion USD was reserved for grants and zero-interest loans, and that Chinese investment in Africa was 3.3 billion USD in 2016 and 3.1 billion USD in 2017, these numbers reveal that the overwhelming majority of Chinese financing is in the category of loans. This does serve to justify the wide-spread concern about the debt burden and sustainability of the African countries and China exacerbating the problem, although China's counterargument is that the long-term economic capacity building effect of the Chinese loans significantly outweighs the downsides.

Despite the overwhelming rhetoric and attention paid to "China going Africa", China's investment in Africa is small compared to other regions. While China's foreign direct investment toward Africa was 3.1 billion USD in 2017, Chinese companies' acquisitions in Latin America alone was as high as 18 billion USD during the same year.<sup>iii</sup> In terms of investment stock, Chinese investment in Latin America had surpassed 200 billion USD by the end of 2017, twice that of Chinese investment in Africa.<sup>iv</sup>

The smaller quantity of Chinese investment toward Africa does not in any sense suggest less qualitative impact. In fact, due to the unique appeal of the Chinese model of economic development that combines political authoritarianism and state capitalism, in many fragile and volatile states in Africa, China's economic engagement has played a significant role in shaping the future political and economic choices of the African elites.

Furthermore, despite the consistent verbal dedication China has expressed to support African industrialization and export of non-resource products to China, the reality does not support such a claim. The Chinese official statistics no longer provide the specifics of different categories of Chinese imports from Africa. However, the top African exporters to China are indeed resource-rich countries, ranking down from South Africa to Angola, Zambia, Republic of Congo, DRC in 2017.<sup>v</sup> If South Africa, China's biggest trading partner in Africa and the largest African exporter to China, could serve

as an example, according to data from the Chinese Ministry of Commerce, natural resources (mineral resources and base metals) together accounted for 86.2% of the country's export to China in 2017, up from the 83.7% in 2016.<sup>vi</sup> While China argues that it is making significant contributions to Africa's industrialization and is shifting away from its traditional focus on African natural resources, there is still a long way to go for China to substantiate this claim.

### **China's Political Aspirations in Africa**

On the issue of Africa's political importance, China's overarching goal historically has been the diplomatic recognition from African nations and the reinforcement of official ties that strengthen the political legitimacy of the Communist regime. Throughout the 1960s, the period when China was "striking with both fists" (in two directions: toward the United States and the Soviet Union), its support for African countries greatly reduced the pressure on China brought about by the international isolation imposed by the two major powers. The emotional affinity of China toward Africa has since then been a constant factor in the relationship.

China relies heavily on diplomatic support and cooperation from African countries on key issues in the international arena and in multilateral forums. Currently, the 54 African states account for more than one-quarter of UN member states and votes. China has relied on African countries' support at the UN for its political agenda, including Beijing's assumption of its seat at the UN. In 2008, before the Beijing Olympics, the issue of Tibet became a controversial sore spot for China at the UN Human Rights Council. China relied on the African countries to remain silent or issue statements supportive of China's Tibet policy in order to defuse and preempt hostile discussions or actions.<sup>vii</sup> Today, on issues ranging from human rights to UN reform, and from regional security to China's core national interests, China looks to Africa to be on its side.

As China's global ambition grows rapidly under President Xi Jinping, China has grown increasingly interested in portraying Africa as a strong supporter and a living testament of China's great power status, its reputation as a responsible stakeholder, and the leader of the developing country bloc. Chinese economic engagement with Africa has been constantly cited to demonstrate the generosity of China as the largest developing country and the desirability of a new international order led by China. These agendas strengthen Xi Jinping's prestige and authority at home and abroad.

Another of China's key political aspirations in the relationship with Africa is to end Taiwan's diplomatic presence on the continent. For Beijing, it is a matter of fundamental regime legitimacy that Africa embraces the One China policy and accepts Beijing rather than Taipei as the only lawful representative of China. The tug-of-war between Beijing and Taipei over diplomatic ties with African countries has lasted more than six decades since the founding of the People's Republic of China. Currently, Eswatini is the only African country that still maintains diplomatic ties with Taiwan. It is worth noting that since the Democratic Progressive Party assumed office in Taiwan in 2016, China has successfully established diplomatic ties with three of Taiwan's diplomatic allies: Gambia, São Tomé and Príncipe, and Burkina Faso. It is widely believed that China's economic enticement, especially the promises of aid and loans, has played a key role in China's winning the diplomatic tug of war.

## China's Ideological Aspirations in Africa

As the largest and perhaps the most effective authoritarian regime in the world, Beijing has always viewed foreign governments' recognition of the Chinese Communist Party's successful political and economic policies as a powerful reinforcement of its legitimacy at home. In recent years, China has begun to actively promote other developing countries to adopt such political and economic policies. China uses its own development model, which combines political authoritarianism and economic capitalism, to prove to some African countries that economic development and political stability could exist without a democratic system. In many countries, "China's economic progress is cited by statisticians, protectionists, and thugs alike to 'prove' that keeping the state's grip on companies, trade, and political freedoms need not stop a country growing by 8%-plus a year."<sup>viii</sup> From Beijing's perspective, the popularity of the China's development model is the best way to validate the viability of the Chinese system.

In this sense, China's ideological interest in Africa did not disappear after it directed its priorities towards economic development. Instead, it has taken a different and more subtle form, one that supports Beijing's legitimacy through spreading and popularizing China's development model. The more countries identify with and adopt Beijing's approach, the less isolated China feels. Beijing would like to see non-Western, non-democratic governments grow and prosper in Africa, simply because they help to validate China's political system and mitigate its international isolation by showing that Western democracy is not a universal value, and that the Western democratic system does not have to apply in every country.

China is actively promoting this new model of political and economic development in Africa through government fellowships and training programs for African elites, which constitute a key component of Chinese foreign policy toward Africa. The goal is to educate African elites on China's experience in economic development and political governance, as well as help them to replicate such policies in their home countries. China states that the training programs are strictly exchanges of opinions rather than an imposition of the China model on African countries. In other words, China invites African elites to China to study the Chinese way of governance on issues they are interested in, but whether they eventually adopt the Chinese way is purely at their own discretion. This approach does constitute capacity building, but it is perhaps less dogmatic compared to Western capacity-building programs.

China actively encourages African elites to personally experience China's economic success and systematically trains them on how to emulate China's paths to success. The conscious effort made by China to help African elites absorb, assimilate, and duplicate the Chinese experience does constitute a different type of ideological push. It is geographically expansive, institutionally systematic, and will have a profound psychological and political impact over the choices and preferences of African political parties, and thus over the African political landscape.

In a Western concept, the Chinese political capacity building program equates to the export of Chinese ideology, albeit in a more implicit and indirect form. However, in this case, China's power does not lie in its imposition, but in its inspiration. It is noteworthy that China under President Xi Jinping is rapidly expanding the scope and scale of such capacity building programs in Africa. In the 2015 FOCAC commitment, China committed to a total of 2,000 degree program opportunities, 30,000 government fellowships, visits by 200 African scholars, and training for 500 African youths and 1,000

media personnel. However, in the 2018 FOCAC commitment, the number of government fellowships jumped from 30,000 to 50,000 in addition to 1,000 African elites China will train for Africa. Demonstrating China's keen interests in shaping the affinity of the next generation African leaders, China has quadrupled the number of African youths to be invited to China for exchanges. While these numbers are impressive, none are as jaw-dropping as the number of capacity building and training opportunities China has agreed to provide: 50,000 additional training opportunities to African countries, including government officials, opinion leaders, scholars, journalists as well as technical experts. These are essentially the African political, economic, social elites, and opinion leaders that will shape the future of the continent and its relations with China.

### **China's Military Aspirations in Africa**

Before the opening of China's first overseas military base in Djibouti in 2017, China's security interests in Africa were primarily limited to the protection of Chinese nationals and assets in politically unstable African countries where China has important economic interests. However, China's base in Djibouti signals a new era of China's security and military ambitions not only in Africa, but also globally. Djibouti is a critical first step in the global ambitions of the Chinese military, and attests to the increasingly sophisticated approach that China has adopted to pursue such a goal.

China has consistently downplayed the importance of its outpost, as well as the capacity and purpose of the base. Before construction was completed, China called it an "overseas logistical supply facility." That term gradually morphed, and now the Chinese characterize it as a "supply base" – still, however, not a "military" outpost. The Chinese media has been at pains to detail how the base cannot conceivably be compared to British and American facilities, for example, in terms of infrastructure, equipment on-hand and on-base capabilities. The reason Beijing intentionally avoids the term "military base" is to dodge attention, suspicion and threat. However, the undeniable truth remains that the base has been dominated, developed and used by the Chinese military.

China has always had a hard time squaring its desire for an overseas military presence with its state ideology of "non-interference" in extra sovereign matters and non-alignment. It has sought, therefore, the cover of legitimacy through United Nations Security Council mandates for peacekeeping missions, which come with host-country consent. In 2008, China began naval-escort missions in the Gulf of Aden, following a series of UN Security Council resolutions authorizing countries to conduct counter-piracy operations in the area. In the 10-year period from 2008, China dispatched 30 naval-escort taskforces to the region, at a steady rate of three a year. The missions provided grounds for China to claim it needed a logistical center to provide support and supplies for its forces in the area. Hence, Djibouti entered the picture with its unique geographical location and popularity with other foreign military forces operating in the area.

The problem is that China's story does not hold water. Piracy off the Somali coast fell sharply between 2012 and 2017 – precisely the period when China negotiated and built its "supply base" in Djibouti. In other words, although China predicated its need for a logistics hub when serving on UN-authorized counter-piracy missions, the development of the base happened when the threat of piracy was in rapid decline.

Following the opening of the base, China has been consolidating its control and capacity of the facility. This is being achieved in parallel with generous Chinese financing for a new port, a free-trade zone, as well as railway, energy-transportation and water-supply projects. This May, the Chinese military acknowledged it was building a new wharf at the Djibouti base. The development of infrastructure supports the operation of the Chinese base, and also hitches the Djibouti government into the Chinese orbit. Djibouti is taking on a public debt that is equivalent to 88 percent of its GDP, with China owning most of this.<sup>ix</sup> With that much debt owed to China, Djibouti's ability to defy or reject Chinese demands is significantly hindered.

Although China has portrayed the base as logistics-oriented, its own actions suggest less benign uses. Two months after its opening, China began military training and live-fire drills. The PLA explained this development on the grounds that it must “explore the model of overseas military deployment and improve the Chinese troops' ability to comprehensively maneuver weapons and conduct diversified military missions.”<sup>x</sup> It has also expanded the scope of its troops stationed there. Now, they are to provide “humanitarian assistance” and to “[contribute] to the peace and stability of Africa.”

There is no rule in international law against China developing overseas military bases, just as there is no reason that China should be judged any differently from other great powers with bases in Djibouti. However, the manner in which China has gone about building out its military capacity invites suspicion. Moreover, China cannot definitively prove and defend its supposed benevolent intentions. The hidden-agenda approach China has deployed – using UN mandates and debt – to get what it wants in Djibouti is worrisome. China's playbook simply defies the rules of the game.

### **The Strategic Implications of Chinese Investment in Africa**

China's strategic aspirations, including its political, ideological and military agendas, are causally related to its economic engagement in Africa and are mutually reinforcing for each other. China's economic capacity and its willingness to use such capacity to cater to African needs lays the foundation for Africa's warm reception and benevolent interpretation of China's agendas. The political support of Chinese policies can usually be acquired through generous offers of Chinese aid, loans and investment. Such a benevolent perception of China and the popularity of China's development model due to its perceived effectiveness significantly enhances the appeal of the Chinese style of state capitalism in Africa. China is building an image of itself as a contributor to the peace and stability in Africa, boosting its image as a responsible stakeholder while materializing, legitimizing and expanding its own military presence on the continent. Chinese financial contributions have not only made these endeavors possible, but also desirable for some African governments. In turn, China's political, military and ideological influence anchors, deepens and broadens the scope and scale of China's economic activities in Africa. As the result, Africa is increasingly tied into the Chinese orbit.

China's financial contribution to African governments has played a significant role in securing Africa's support of China's political agenda regionally and globally. There is a popular perception in China that Africa's support of China's foreign policies can be easily acquired through economic enticement and reward. Such a transactional approach has often blurred the principles of international politics. Instead, mercantilism prevails. For example, Chinese promises of economic reward or the perception of pending Chinese economic reward have greatly shaped the alignment choice and normalization decisions of Taiwan's former African diplomatic allies.<sup>xi</sup> Similarly, African countries that maintain

close economic cooperation with China were called upon to support China's positions on key security issues such as the South China Sea: more than ten African countries expressed support of China's position on the South China Sea before the 2016 ruling according to official Chinese statement, including Tanzania, Uganda, Gambia, and Kenya.<sup>xii</sup>

China's economic statecraft in Africa has become one of the most prioritized and effective instruments in China's challenge to the current international order. With Africa on China's side, China regards Africa as China's "natural ally" in international affairs vis-à-vis the developed countries. China believes that it shares with Africa the same agenda on defending the interests of developing countries and emerging markets, promoting the so-called "democratization of the international relations" and reforming the global governance system.<sup>xiii</sup> In the context of the great power competition, the support China rallies from African countries greatly enhances China's ability to effectively compete with the U.S. over the legitimacy, credibility, and capability of the new model of international relations that China advocates for. China would like to portray that African support of China's leadership within the global South springs from their shared history and grievances vis-à-vis the global North. However, in reality, such a claim of leadership has been primarily based upon China's "benevolence" as manifested through its aid, loans and investments as public goods.

China's economic engagement with Africa has also had a major exemplary effect on the strength of China's development model. In an authoritarian system, the centralization of power does confer upon the state the ability to make and implement policies without a lengthy democratic process, ostensibly enhancing its efficiency and effectiveness. For African countries that struggle with political instability and economic stagnation, China uses its infrastructure projects and training opportunities in China to inspire admiration and imitation from African people and elites. Although a successful example of African adoption of China's political and economic system is yet to emerge (as China's "best student" Ethiopia remains a debatable case), the China model offers Africa a seemingly viable alternative to a democratic system, good governance, and a free market economy.

Beyond the philosophical conviction, China's active promotion of its own development model in Africa also creates opportunities for China to play a key role in the economic development plans of African countries upon witnessing the "miracle" of China's economic development. Once African countries are convinced of the need for expensive infrastructure projects to jump start their agricultural growth and industrialization, China stands ready to provide the loans (often backed by African natural resources) and Chinese service contractors to build the projects. From 2000 to 2017, China loaned around \$143 billion to the continent, as data from the China-Africa Research Initiative (CARI) at Washington's Johns Hopkins University School of Advanced International Studies shows.<sup>xiv</sup> The predatory aspect of this practice lies in the lack of consideration of African countries' realistic needs for mega-infrastructure projects on the ground, creating debt traps for vulnerable African economies, such as Congo Republic, Djibouti and Zambia.<sup>xv</sup> While the governments of these countries appear to be of the belief that they will eventually receive debt leniency or forgiveness from China, such leniency is never free but rather is conditioned upon other political and strategic concessions that China demands from Africa.

In terms of China's overseas military ambitions, China's apparent generosity with economic lending to Djibouti secured the consent and support from the local government for China's military base. As China expands its economic presence on the African continent, including in those unstable and volatile

countries, the protection of those assets and Chinese nationals will be increasingly used to justify China's further military deployment and potential intervention on the ground. Due to the political and economic influence China enjoys in Africa, the continent has become a fertile test ground for China's overseas military ambitions, including its blue water navy

It is worth noting that from the very beginning, China's economic activities in Africa originate from the innate demand by the Chinese domestic economy for overseas markets and suppliers of raw materials, rather than the desire for overseas expansion or to compete with the United States. However, as China's economic engagement with Africa broadens and deepens, its nature becomes intrinsically blurred. The sophisticated Chinese approach interweaves its economic interests with political, ideological and security aspirations, which consequently creates a reality of China expanding its strategic influence on the African continent. The growing willingness of African countries to support Beijing's political agendas, their eagerness to embrace China's development model, and their welcoming accommodation of China's security and military ambitions in Africa all signify the strength, reach, and influence that China is gaining as a great power. As it currently stands, Africa is indispensable in China's bid for global superpower status and Beijing has worked diligently to tie Africa into China's orbit through economic statecrafts, political friendship, as well as ideological influence. If the U.S. and China are indeed engaged in a zero-sum competition for global hegemony, Africa's alignment choice has a critical impact on the endgame.

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<sup>i</sup> "Chinese Cumulative Investment to Africa Surpassing 100 Billion USD", [中国对非洲各类投资存量超过千亿美元], August 28, 2018, China News, <http://www.chinanews.com/cj/2018/08-28/8612575.shtml>.

<sup>ii</sup> "Brief Summary of China's FDI in 2017", [2017 年我国对外非金融类直接投资简明统计], Ministry of Commerce, January 16, 2018, <http://fec.mofcom.gov.cn/article/tjsj/ydjm/jwtz/201801/20180102699445.shtml>.

<sup>iii</sup> WU Hao, "Report Shows Chinese Companies Have Become Key Investors in Acquisitions of Latin American Companies," [报告显示中企成为拉美企业并购重要投资者], Xinhua News, July 7, 2018, [http://www.xinhuanet.com/fortune/2018-07/07/c\\_1123092902.htm](http://www.xinhuanet.com/fortune/2018-07/07/c_1123092902.htm).

<sup>iv</sup> HE Jia, WU Jierui, "Chinese Direct Investment to Latin America Surpassing 200 Billion USD," [中国对拉美直接投资超 200 亿美元 跨境电商合作成亮点], *21<sup>st</sup> Century Business Herald*, Feb 5, 2018, <http://silkroad.news.cn/2018/0205/83169.shtml>.

<sup>v</sup> "Trade Data and Ranking of China's Trade with African Countries in 2017," [2017 年中国与非洲各国贸易数据及相关排名], China-Africa Trade Research Center, Feb 2, 2018, <http://news.afrindex.com/zixun/article10384.html>.

<sup>vi</sup> Yun Sun, "China's 2018 Financial Commitments to Africa: Adjustment and Recalibration," Brookings, September 5, 2018, <https://www.brookings.edu/blog/africa-in-focus/2018/09/05/chinas-2018-financial-commitments-to-africa-adjustment-and-recalibration/>.

<sup>vii</sup> David H. Shinn, "China's Growing Role in Africa: Implications for U.S. Policy," testimony before Senate Committee on Foreign Relations Subcommittee on African Affairs, November 1, 2011. [www.foreign.senate.gov/imo/media/doc/David\\_Shinn\\_Testimony.pdf](http://www.foreign.senate.gov/imo/media/doc/David_Shinn_Testimony.pdf).

<sup>viii</sup> "Wrong Model, Right Continent", October 26, 2006, *The Economist*, <http://www.economist.com/node/8080804>.

<sup>viii</sup> A senior Chinese analyst at the People's University, Tao Wenzhao, wrote publicly that "China Model has substantial influence in Africa, which is an indispensable soft power for China to become a great power in the world." Tao Wenzhao, "The Africa Effect of China Model", [中国模式的非洲效应], *Guo Ji Wen Ti Yan Jiu*, June 21, 2011, <http://www.cssn.cn/news/374420.htm>.

<sup>ix</sup> Amy Cheng, "Will Djibouti Become Latest Country to Fall Into China's Debt Trap," *Foreign Policy*, July 31, 2018, <https://foreignpolicy.com/2018/07/31/will-djibouti-become-latest-country-to-fall-into-chinas-debt-trap/>.



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<sup>x</sup> Zhang Baoqing, Chen Ping, “Live-Fire Drills Organized at Our Support Base in Djibouti,” [我驻吉布提保障基地开展实兵实装实弹演练], China Military, May 15, 2018, [http://www.81.cn/jwsj/2018-05/15/content\\_8032424.htm](http://www.81.cn/jwsj/2018-05/15/content_8032424.htm).

<sup>xi</sup> Lisa Schlein, “Africa Misses Out on Taiwan’s Development Aid Due to ‘One China’ Policy”, April 8, 2018, Voice of America, <https://www.voanews.com/a/africa-misses-out-on-taiwan-development-aid-one-china-policy/4337530.html>.

<sup>xii</sup> Lu Miaogeng, “African Countries Support China’s Positions on the South China Sea”, [非洲国家支持中国南海立场], June 14, 2016, <https://www.fmprc.gov.cn/zflt/chn/zxxx/t1371916.htm>.

<sup>xiii</sup> Wang Yi, “Building a Closer Sino-Africa Community of Common Destiny,” 【携手构建更加紧密的中非命运共同体】 , *Qiushi*, September 16, 2018, [http://www.qstheory.cn/dukan/qs/2018-09/16/c\\_1123429190.htm](http://www.qstheory.cn/dukan/qs/2018-09/16/c_1123429190.htm).

<sup>xiv</sup> “Data: Chinese Loans to Africa,” China Africa Research Initiative, <http://www.sais-cari.org/data-chinese-loans-and-aid-to-africa>.

<sup>xv</sup> George Tubei, “The Sad Similarity between Sri Lanka, Zambia and Now Djibouti That Best Exemplifies China’s Debt Trap Diplomacy,” Business Insider, September 11, 2018, <https://www.pulse.ng/bi/politics/how-djibouti-like-zambia-is-about-to-lose-its-port-to-china-id8839335.html>.