

Global and Local Challenges and Opportunities: reflections on China and the governance of African natural resources

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China's three decades of unbroken growth, transforming it from an economic backwater to the world's second largest economy, has fuelled an ever-expanding demand for energy, strategic minerals and new markets (Downs, 2004: 21-41; Oliveira, 2008: 83-109). The promulgation of the government's 'going out' strategy, whereby over a hundred restructured state-owned enterprises have been given the legal and administrative means, preferential access to finance, and diplomatic support necessary to break into markets outside of China, has been the main policy response to this need. Given the financial resources of what by 2006 had become the world's largest holder of foreign reserves (over US\$3 trillion as of mid 2012) and applying these to the problem of carving out a position in the energy and strategic minerals markets was, in retrospect, fairly straight forward solution to this dilemma in a capital-starved African environment.

Concurrently, the willingness of the Chinese government to provide a whole package of inducements alongside any leasing or supply agreements, aimed at elite-defined needs ranging from presidential palaces to large-scale infrastructure projects, has proved to be crucial to securing deals in Africa throughout most of the past decade (Alden, 2007: 11-36; Alves, 2012). Underlying this approach is a highly publicised provision whereby the Chinese government forswears any interest in the domestic affairs of African governments, in direct contrast to the European Union (EU) or the United States (US), both of whom have selectively applied conditions to their development assistance programmes and even some investments. The success of Chinese resource diplomacy in Africa can be measured in terms of its presence across the continent in most of all the major resource economies there: it has gone from a status of no position in the resource market in 1995 to a standing as a significant player today with oil exploration licenses from Sudan and Uganda to Angola and mining concessions from Guinea and Sierra Leone to Zambia and South Africa.

This chapter discusses three broad key questions that cut across most literature on China's engagement in Africa produced since the turn of the century. These questions are: a) What drives China's relationship with Africa?; b) What makes China-Africa relationship unique?; and c) how have China's engagement strategies impacted the African continent? While not aspiring to provide a final answer to each of these questions, the present study aims at informing the debate by providing a concise analysis from the point of view of the governance of African resources. In this framework, the paper starts by discussing China's search for resource security as a key driver of its Africa foray; the next section analyses the specificities of China's ways of engagement in

resources sectors in the continent; followed by an assessment of the impact these have had in the industry in terms of development and governance. Before concluding, the authors briefly discuss how growing exposure to African risks and international scrutiny is also prompting noticeable policy shifts in China's ways of engagement in resources sectors in the continent. This study is based on primary (in-person interviews, fieldtrips and primary documents) and secondary sources compiled and digested over a number of years (2007-2012).

China's Search for Resource Security in Africa

Even though China's search for new markets undoubtedly plays an important role in its foray into Africa, one cannot stop noticing that the bilateral trade structure over the past decade shows the increasing weight of resources quest in its interaction with the continent.

One of the most notable changing traits in China's foreign trade over the past decade has been the increasing share of minerals in its global imports. In 2010 mineral commodities accounted for 64% of China's imports totalling US\$375 billion up from US\$40 billion a decade ago (WTO, 2012). In order to minimise its increasing vulnerability, Beijing has pursued a strategy of diversifying its supply sources. While Asia and the Middle East still account for a significant share of China's mineral commodities supply, its imports from other resource rich regions such as Oceania, Latin America and, particularly Africa have expanded a lot faster in recent years. Africa's share in China's minerals imports presents one of the fastest growth rates having increased fourteen times over the past decade (WTO, 2000-2011).

Although China is leading producer of a wide range of minerals (aluminium, cement, coal, copper, gold, iron and steel, lead, manganese, rare earths, silver, tin, tungsten, and zinc) and ranks amongst the world's top producers of many other mineral commodities, including oil (fifth largest producer); its demand of a number of strategic mineral commodities (chromium, cobalt, copper, iron ore, manganese, nickel, petroleum, platinum group metals and potash) largely outstrips domestic supply. As a result Beijing is increasingly reliant on imports to meet its domestic demand (Tse, 2012: 9.1). China's reliance on imports is growing even in commodities that it is leading producer, namely tin (China became net importer in 2008) and lead (net importer since 2009).

Oil security is the foremost Chinese concern since it represents its largest external reliance. From leading Asian oil exporter up until the early 1990s, China became in the following decade the second largest world consumer and importer by virtue of its fast growing domestic demand. At present, and despite being amongst the top five world largest oil producers, China only provides for less than half of its domestic oil needs (BP, 2011). China's oil consumption has doubled in the last decade and according to OPEC it will double again by 2030 when it is expected to consume over 15 million barrels per day (bpd) (OPEC, 2008: 46). As Erica Downs points out, if the question in the 1990s was whether Beijing would have the financial means to secure the necessary oil supply, in the 2000s the issue became if there would be enough oil available in the international market to supply China (Downs, 2006:15).

Chinese imports from Africa, which in 2011 accounted for nearly sixty per cent of total bilateral trade (US\$166 billion) (Freemantle & Stevens, 2012), are largely composed of strategic raw materials. Crude oil alone accounted for nearly 60% of China's imports from the continent, with Angola, Sudan and Republic of Congo on the lead, while new sources such as Ghana, DRC and Egypt, have recently emerged (Freemantle & Stevens, 2012). The same trend is apparent in China's investment flows into Africa. Chinese Outward direct investment (ODI) in Africa has grown exponentially from US\$500 million in 2003 to US\$13 billion in 2010 (non financial investment stock), much of it concentrated in natural resources sectors (Davies, 2012:3). As the continent's economic dynamism intensifies, Chinese investment should expand further along the same lines. According to a forecast by South Africa's Standard Bank, Chinese investment in Africa is expected to soar by 70% in the period 2011-2015, when it will reach US\$50 billion (Bloomberg, 2011). The bulk of China's investments in oil and mining in the continent is conducted by state-owned enterprises (Davies, 2012: 4), with strong financial backing from policy banks (Downs, 2011; Freemantle & Stevens, 2012: 7).

The Idiosyncrasies of Chinese engagement in Africa's mineral sector

In this regard, infrastructure-for-resources loans figure amongst the most criticised instruments used by China to penetrate resources in Africa, mostly owing to the opacity of the deals, its impact on debt sustainability of these countries, Chinese labour practices and the environmental impact. This funding arrangement offers resource rich countries the provision of much needed infrastructure in exchange for access to resource assets and long term supply (Downs 2011; Corkin 2011; Gallagher et al 2012; Alves 2012,). In general this type of loan is rooted in two legal instruments: a framework cooperation agreement signed by the two governments stating the general terms (volume, purpose, interest rate and maturity) and a loan agreement signed by China Exim Bank and the borrower. The reimbursement period is relatively long (up to 15-20 years, including 5-7 years grace) (Information Office, 2010). Being most of these credit lines export credit facilities, they come tied to the procurement of services, goods and labour in China (minimum of 50%), leaving in general only a small margin for local content in the target country. Drawing on the practices of western banking institutions throughout the 1990's in financing African countries with low creditworthiness rates, these credit lines are guaranteed by proceeds from sales of resources.

Angola was the first African country to sign a large resources-backed deal with China (Alves, 2010), exchanging long term oil supply for infrastructures, hence the designation 'Angola mode'. According to the office responsible for running the Chinese loans in the Ministry of finance (personal interview 1, 2008a) three agreements were signed with China Exim Bank between 2004-2007 worth a total of US\$ 4.5 billion. The loan is to be repaid over 17 years following a grace period of five years, with an interest rate of Libor + 1, 5%, and is secured by the proceeds originating from the sale of a pre-determined volume of oil to a Chinese company (UNIPEC). The Chinese credit line is entirely directed to projects listed in the government's public infrastructures programme. The Chinese loan came at a particular auspicious timing. Angola had been trying unsuccessfully to raise funds for the national reconstruction project since the end of the civil war in 2002. All countries approached by Luanda imposed as a condition that

Angola implemented a Staff Monitoring Agreement with the IMF. China's infrastructure for oil loan offered Angola a way out of this predicament. In Gabon (see Dittgen, 2011), a modest oil producer with significant under-exploited deposits of iron ore and manganese, the Chinese were actively encouraged by the Gabonese government to put in a bid for the Belinga iron ore project, which had been contracted out to the Brazilian miner Vale (Alves 2008: 4-5). Following the visit of Hu Jintao, a Chinese consortium led by China National Machinery and Equipment Corporation (CMEC) won exclusive rights to Belinga and its outputs in exchange for a US\$3bn investment aimed at developing Gabon's infrastructure underwritten by the China ExIm Bank. The project includes the construction of a brand new 560km railway line linking Belinga to the coast, a deepwater mining harbour for transportation located north of Libreville, a hydroelectric dam in the Ivindo river and the iron mining factory (Alves 2008: 4-5). Realising the deal, however, proved more difficult as a coalition of local and international NGOs, along with the World Bank, launched protests over the secretive nature of the contract, the concern over the Chinese 'control' over national resources and the building of a dam in a national park. Delays in initiating the work, partly a product of the structure of the consortium itself, have meant the project has yet to produce results. As of mid 2012, there were rumours in the media that Ali Bongo was courting BHP Billiton and Vale to take over the project (AAP, 2012).

A similar 'infrastructures for resources deal' was signed between the DRC and China Exim Bank in September 2007 worth US\$ 5 billion. Notably this loan is well above other loans secured by the DRC in recent years with its Western donors. As with Gabon, repayment terms include rights over its natural resources, namely mining and timber concession (Montia, 2007), and toll revenue deals for Chinese companies. In January 2008 this loan was expanded to US\$ 9 billion, reallocating US\$ 6 billion to infrastructure and US\$ 3 billion to mining. A deal was then signed between the Congolese state miner Gécamines, Sinohydro and China Railway Engineering Corporation (CREC) through which a joint venture came into existence. The JV, named Sicominex and owned in 68% by the Chinese part (Bavier, 2008), is to repay the loan (for both infrastructures and mining) with revenue obtained through the exploration rights over two copper and cobalt concessions located in Katanga province. The project development, however, has been delayed by traditional donors' pressure to renegotiate the contract due to excessive indebted concerns. The loan has been revised and downsized to US\$6bn in 2009 under Kinshasa's request (personal Interview 2, 2009). The new contract signed in 2009 is only partially under implementation as bulk of the loan is yet to be release, currently pending approval by the relevant authorities on both sides (Jansson, 2011).

This same pattern of Chinese investment flowing jointly into mining and infrastructures also emerged in other resource rich countries such as Sudan, Nigeria, Equatorial Guinea and Chad. As a latecomer and still lagging far behind the technology and expertise of its Western competitors, Chinese resources state owned enterprises (SOE) rely on this approach and on the government's deep pockets to create joint ventures with local companies and to expand its stakes in assets controlled by Western companies.

China has extended a new batch of infrastructure for resources loans in recent years, taking advantage of the financing difficulties in some resources rich African countries in the context of the global economic crisis. After two years of negotiations, in 2011 China

Exim Bank extended another \$3bn infrastructure oil-backed credit facility to Angola . That same year China Development Bank (CDB) signed a US\$3bn loan agreement with Africa's newest oil producer, Ghana, to fund downstream gas infrastructure linked to the Jubilee field and other infrastructure (Verma, 2011).

A number of other loans are reportedly in the pipeline. In February 2012 Lagos was negotiating with China Exim Bank and CDB a US\$3bn credit facility for completion of various projects in the fields of transportation, aviation, education and agriculture (Ahmed, 2012). In late April 2012, South Sudan also announced it was negotiating with China a US\$8bn loan for infrastructure, namely, road construction, agriculture, hydroelectric plants and telecommunications (Sudan tribune, 2012b).

While Beijing seems to still perceive the extension of soft loans to well endowed African states as a valuable instrument in its quest for resources security in Africa, its companies appear to be increasingly confident in venturing outside the comfort of Beijing's umbrella. In a context of contracting liquidity in international financial markets, Chinese SOEs were well positioned to make the most out of their best competitive advantage: their unmatched financial might, largely rooted in Beijing's massive foreign exchange reserves. Sinopec's takeover of Addax Petroleum in 2009 was the largest ever overseas successful acquisition by a Chinese company. The acquisition has given Sinopec access to sizeable oil and gas equity in Nigeria, Gabon, and the Kurdistan region in Iraq (Brunswick, 2009). In February 2012 CNOOC confirmed its entry visa in Uganda's oil industry, out of Kampala's attempt to avoid Tullow's monopoly over the country's oil resources. CNOOC now has a third in the oil project which development is valued at US\$20bn, including a refinery and a pipeline to the Indian Ocean (Mombasa) (lee & Poon, 2009).

During this period, Chinese SOEs have been particularly successful in Africa's mining sector. Some of the largest deals over the last couple of years have been signed over iron ore deposits in western Africa. Chinalco's acquired 47% of Simandou project (Guinea) from Rio Tinto (in which Chinalco has a 9% stake) for US\$1.4bn in March 2010 (Smith & Macnamara, 2010). In Sierra Leone, Chinese companies have partnered up with African Minerals to finance the development of Tonkolili iron ore mine (Sierra Express Media, 2010a). China Railway Materials acquired 12.5% of African Minerals for US\$250m in March 2010, and a few months later an agreement was signed with Shandong Iron & Steel Group to inject US\$1.5bn for a 25% stake in the project (Serra express media, 2010b). In October 2011, Sichuan Hanlong Group, with the backing of China Development Bank, signed a \$1.6bn agreement to take over Australian Sundance Resources Ltd, owner of Mbalam iron ore project, cutting across Cameroon and Congo.

Over the last year Chinese miners have also been increasingly active in Southern Africa, particularly in the copper belt region (Zambia-DRC). In July 2011 nickel miner Jinchuan group outbid Brazilian competitor Vale and acquired Meteorex for US\$1.3bn, which holds significant copper and cobalt assets in DRC's Katanga province and Zambia's Copperbelt (I-net bridge, 2011). That same year Minmetals finally acquired its first mining acreage in Africa, paying US\$1.3bn for 90% of Canada-listed Anvil Mining, which owns Kinsevere and Mutoshi copper and cobalt projects in the DRC (Paul, 2012). In February 2012 NFCA, a subsidiary of China Nonferrous Metals Corporation (CNMC),

announced a further US\$832 million investment to develop the Southeast side of its Chambishi copper mine in Zambia.

Beijing's political backing and financial support to its SOEs seems to be gradually offsetting any deficiencies in technological skills, experience and expertise considerations in face of Western competitors, particularly so in the global crisis context. In a framework marked by financial contraction of its contenders, Chinese SOEs unmatched financial capacity gives them a decisive competitive edge, allowing easy access to assets through mergers and acquisitions. This has allowed them to circumvent the normal bidding processes (now more scarce in the continent owing to ongoing regulatory revisions and the crisis context) in which they would have to face fierce competition from better equipped western miners and oil corporations.

Although Western and local companies still dominate the mining extractive industries in the continent, Chinese presence is growing fast and with complaints over Chinese labour, environmental and corporate social responsibility (CSR) practices.

Assessing the Impact of Chinese Involvement in Africa's Resource Sector

The onset of the global financial crisis placed China in a unique position to shape African economies and influence the continent's policies and business practices to an unprecedented degree. Underlying this situation is the fact that China has become Africa's largest trading partner (2009), an important investor, and a very significant cooperation partner, surpassing traditional donors and international financial institutions. To put China's growing weight as a development partner in perspective, as early as 2006 China's financial commitments in only three African countries (Angola, Nigeria and Mozambique - US\$ 8,1bn) already equaled those of World Bank, US and France combined to the whole Sub Saharan Africa region (Swann &McQuillen, 2006). For many observers, the concern is not only China's growing influence as an unconditional donor, but also debt sustainability and its long-term impact on economic stability in the continent. China has been expanding its credits in Africa in the framework of various Western initiatives for debt relief, namely the Heavily Indebted Poor Countries initiative (HIPC) ¹ and the Paris Club, which together have forgiven US\$89 billion up to 2007 to Sub-Saharan Africa (Foster et al, 2008: 48), while China's equivalent figure for 2000-2009 period is below US\$3 billion (Information Office, 2010).

Any overall assessment of China's involvement in the resource sector in Africa necessarily deals in generalities that may gloss over some particular examples. Having said that, the development impact of Chinese investments in commodities in Africa has been generally quite positive, though not without controversy in certain settings; China's influence on governance matters has been on the whole more contentious, even though in most cases this impact has been extremely difficult to measure. In both instances, however, it is necessary to go beyond the media accounts to get a fuller understanding of the Chinese role and impact in these areas.

Impact on African Development

On the positive side of the development ledger, through its engagement in resources sectors in Africa, China has made a substantial contribution to provisions for ‘hard infrastructure’ such as roads, railroads, power plants and distribution grids, pipelines and refineries, etc. that will make a significant contribution towards the revamping of Africa’s poor transportation network. This development is taking place mostly in the framework of infrastructure for resources loans (i.e. Angola, DRC, Nigeria, Sudan, Ghana) and potentially through infrastructure commitments taken over acquisition of resource assets over the past couple of years (i.e. Simandou iron ore project in Guinea; Mbalam iron ore project in Cameroon-Congo). As underscored by a World Bank study, the investment backlog in infrastructure is set at US\$22bn annually (Foster et al, 2008) and Chinese investment stock in the continent, peaking in 2011 at US\$13bn (Freemantle & Stevens, 2012: 7), is making a major contribution to addressing this need.

These activities are well-tailored to the over-capacity in China’s domestic construction industry, which had like other sectors, been encouraged by Beijing to ‘go global’ and is a fine illustration of the principle of ‘mutual benefit’ in developing country co-operation. Chinese project finance, which has in some instances ignored the conventional assessments of risk produced by Western banks, has set off a process of reviewing industry standard risk metrics and, concurrently, the investment potential in Africa (Personal Interview 3, 2008b). It should also be noted that while poverty reduction is not being addressed directly as such in Chinese investments into mineral commodities but, in so far as provisions for hard infrastructure release untapped or underexploited resources, the Chinese are making an important contribution towards alleviating it nonetheless. The elimination of bottlenecks by providing new transport, port facilities and increasing power generation are all contributing to laying the foundation for Africa’s economic take-off.

Problematic features of the relationship are the wilful ignoring of some of the features of financing which have been designed to improve African governance (so-called ‘soft infrastructure’); the accompanying lack of transparency in financial support (primarily oil-backed loans) for investment projects; the poor quality of some of the infrastructure built by Chinese companies which raises questions regarding its durability; and the conduct of some Chinese companies (state and non-state owned) in violating labour and environmental standards in host countries. In the mining sector specifically, this has resulted in practices such as the illegal use of child labour and sub-standard health and safety conditions in Katanga (Bloomberg, 2008: 89-90). The import of Chinese labour practices (lower salaries and safety conditions, long hours shifts, short-term contracts, etc.) into the African continent has led to serious confrontations between Chinese miners (public and private) and local work force, which are particularly recurrent in Zambia (Haglund, 2010). In response to these problems, Beijing has committed itself to introduce CSR measures into business practices amongst Chinese SOEs (see below).

More broadly, there are concerns around the structural impact of Chinese trade and investment patterns on African economies, which because being highly concentrated in

resources raises concerns of leading to a Dutch disease effect. These patterns, however, are a function of Africa's comparative advantage, and as such replicate Africa's traditional standing with the industrialised West as a provider of primary products in exchange for finished manufactured goods. The fluctuation in commodity prices highlights the dangers of reliance on this sole source of revenue and the need for a diversification. According to a study by African Development Bank (AfDB), however, Chinese engagement in Africa has made no significant impact so far in Africa's economic diversification (Berthelemy, 2011: 27). Thus the desire to enhance African development prospects through the pursuit of beneficiation strategies that complement the extraction of resources is seen to be imperative to breaking Africa's poverty cycle.

Finally, there are concerns as to the structure of loans being provided by the Chinese, which could put these countries into a new cycle of debt, something that is especially disturbing given the hard-fought concessions necessary to win debt-forgiveness in the last decade. The perception that China (as well as new emerging donors) is free riding on long standing debt-relief efforts by traditional donors and multilateral institutions while adding to the debt burdens of African countries is, however, contested by a number of studies. As underlined by the Organisation for Economic Cooperation and Development (OECD), the major beneficiaries of Chinese loans are resource rich states that did not benefit from HIPC (i.e. Angola, Sudan, Nigeria) and in which debt ratios have actually declined in recent years (Reisen&Ndoeye, 2008). In addition, China debt relief in Africa has benefited mostly HIPCs and its subsidised export buyers credit facilities would be considered concessional by current DAC standards (Development Assistance Committee of the OECD) (Reisen & Ndoeye, 2008). While supporting that Chinese loans have not impaired Africa's debt sustainability so far, AfDB considers that this may become a problem in the future as China's engagement in the continent intensifies, drawing attention to the case of the Democratic Republic of Congo (DRC), which had to modify the terms of Chinese financial assistance in 2009 to qualify for completion of HIPC debt relief (Berthelemy, 2011).

Impact on governance of African resources

A number of China's resource rich African partners have consistently appeared at the bottom of Mo Ibrahim Index of African Governance, namely, Angola (42 out of 53 in 2010), Guinea (43), Equatorial Guinea (45), Sudan (48) the Democratic Republic of the Congo (50) and Zimbabwe (51) (Mo Ibrahim Foundation, 2011). Against this backdrop, concerns have been expressed over China's expanding engagement in the continent as it is feared that China's 'no strings attached' approach to investment and development assistance might undermine their long-standing efforts in improving governance and transparency through the application of strict conditionalities. Chinese funding formula, the so called 'Angola mode', allegedly allows countries with no credit-worthiness in the international market to contract loans against resources output, allowing them to circumvent International Monetary Fund (IMF) and World Bank transparency requirements. While linear regression models have found evidence that Chinese investment in Africa is resource driven (Cheung et al, 2012: 217), the linkage between Chinese foreign direct investment (FDI) and poor governance of African resource rich countries remains very unclear (Lawrence et al, 2012: 21).

In fact, a closer look at the case of Angola demonstrates that, even though China's credit lines may have contributed to Luanda's disengagement with 'Washington Consensus' mechanisms like the IMF, HIPC and the Extractive Industries Transparency Initiative (EITI)², the Angolan government has been repaying its creditors and improving transparency in public accounts. For instance, the Ministry of Finance has become increasingly transparent, making public information previously undisclosed, including the government's public accounts, the management of China's Eximbank loan, and financial reports on Endiama and Sonangol, diamonds and oil parastatals respectively. Moreover it has resumed ties with IMF in 2009 and notable progress has been made in diversifying the economy away from oil exports. This suggests that closer ties with China do not necessarily entail a decline in transparency and economic performance. Nevertheless, a lot remains to be done regarding poverty reduction, monetary policy, caution in government spending and further progress is needed in transparency and governance.

The arrival of China as an explicit alternative to the West has also raised fears that it emboldened rogue regimes (i.e. Sudan and Zimbabwe) to pursue policies that might otherwise be subject to counteraction by the donor community and international financial institutions. Persistent human rights violations and electoral fraud, which have characterized the conduct of Bashir and Mugabe in their respective countries, though by no means endorsed by Beijing, nonetheless have been allowed to continue with only limited public criticism from China; thus giving at least the impression of China's tacit support.

Traditional development partners are also concerned with the risks entailed for sustainable development in terms of resource exploration and environmental impact, since Chinese companies have a poor record in this regard and African regulations are generally poorly implemented and provide therefore low protection standards. There are already wide concerns over the environmental impact of Chinese projects in the region, especially in the timber industry. Central Africa covers the largest tropical rainforest on the continent and as such has been subject to predatory deforestation in the last few years. As the largest importer of logs from the region, China is under fire from Western environmental organizations.

Western businesses are easier to control because they possess strict import regulations and are subject to direct pressure within the political framework of developed countries' civil society. China's domestic environmental concerns are quite recent and as such regulations and standards are yet to be significantly improved. Beijing's interest in promoting better standards of operation by its SOEs is slowly taking root (see below) but if the Western pattern is any guide, this needs to be complemented by an active Chinese civil society engagement on these topics. Though civil society forms of environmental activism are growing in China (especially in the wake of the 2008 Beijing Olympic Games), they are overwhelmingly focused on domestic issues and do not, as yet, link up with environmental matters beyond its borders.

China: a change in behaviour?

The pressure and scrutiny on Chinese foreign policy and the conduct of its firms based in Africa has been a growing feature since 2004. At the same time, the adaptability of the Chinese government to new circumstances and its willingness to consider – if not always

act upon – the impact and reaction of African and even Western actors to its engagement in the continent is now recognised. Moreover, greater exposure on the part of Chinese firms to Africa has meant that they have increasingly been targeted by militants in conflicts in Sudan, Ethiopia and Nigeria. More recently Chinese resource and infrastructure operations in Northern Africa have been severely affected by the impact of the Arab Spring, particularly so in Libya, where Chinese authorities had to evacuate over 35,000 Chinese nationals. The result of this is that China's resource strategy towards Africa is undergoing some modest changes which are in no small part a result of this exposure to the African context risks and international scrutiny.

For instance, China has shown some openness towards a number of international regulation initiatives to improve governance, transparency and sustainability of natural resources development in Africa, namely the Kimberley process³, the EITI⁴ and the Equator principles⁵; Chinese firms' compliance with these initiatives has, however, been a matter of contention in all these cases.

Some measures have been taken by Beijing to improve the environmental impact of China's overseas investments, namely the inclusion of an environmental safeguard among the nine principles regulating Chinese companies investments overseas issued by the State Council in October 2007 ; similar initiatives in a number of ministries (e.g. Ministry of Commerce) and agencies (State Banks); and the agreement signed in January 2008 between the Chinese environmental watchdog (State Environmental Protection Administration, SEPA) and the International Finance Corporation to introduce the Equator Principles in China (Bosshard, 2008). China's Industrial Bank became in November 2008 the first Chinese financial institutions to adopt the 'Equator Principles'. Despite progress at the political level, the lack of an efficient supervision mechanism at the bottom of the hierarchy has led to slow progress. Although the above measures do not necessarily apply to China's overseas investments it offers the blueprint from where Chinese financing institutions such as the China Exim Bank may extract guidance in the near future. The implementation of the Principles in their projects overseas, however, remains as of now far below expectations.

As for China Exim Bank (which is becoming the world's largest funding agency – it pledged to invest US\$ 20bn 2007-2010 in Africa), it adopted its own environmental policy in 2004, which it has made public in mid 2007 and complemented with further guidelines in August 2007 concerning social and environmental impact assessment urging the companies to comply with host country policies but no reference made to any international regulations. Nevertheless, the signature of a Memorandum of Understanding with the World Bank in late 2007 to exchange information on project evaluation procedures and look for opportunities to cooperate in development projects in other countries, may have a positive impact on China Exim Bank environmental and transparency standards in the future.

In the realm of the EITI, progress has been far slower. Although a significant number of resource-rich African countries have joined the list of candidate countries (including some of China's strategic partners, Equatorial Guinea, DRC, Nigeria, Gabon, and Ghana),⁶ some of the most strategic Chinese partners have chosen to remain at large, namely Angola and Sudan. Even though China prefers to keep the EITI at bay, international pressure has forced some progress on this, and Beijing has shown support

for the EITI in a number of international fora. The EITI has put some effort in recent years to engage Chinese authorities and companies with the initiative and sees as positive recent developments in China, namely the issuing of governmental CSR directives for Chinese companies operating abroad (EITI, 2009). More recently, some Chinese extractive companies have reported under the EITI framework in a few countries, namely Nigeria and Gabon (Paris, 2010).

There have also been other signs of policy shifts. Sudan represents the most paradigmatic case regarding the principle of non-interference, which was openly challenged by the political situation in Sudan in 2008. Pressed by the twin forces of the AU and international public opinion around the Beijing Olympics (the “Genocide Olympics” campaign), Beijing felt compelled to modify its once staunch ‘non-interference’ stance and authorize a hybrid UN-AU sponsored peacekeeping force in Darfur. Endorsing international intervention took a step further in Libya with Beijing’s abstention of the Security Council Resolution 1973 in early 2011 which, in the view of most parties, were pushed by NATO action into an unauthorized Western effort at regime change. China’s attempts during the war to build bridges with rebels while seeking to sell arms to Qaddafi seemed to have backfired, leaving Chinese interests isolated from the reallocation of oil interests and post-conflict reconstruction projects to date. Beijing is facing a similar backlash in South Sudan with Juba’s decision to expel China’s National Petroleum Corporation (CNPC) senior representative in february 2012 following accusations of compliance with Khartoum in committing fraud to deny Juba its proper share of oil revenues (Sudan Tribune, 2012a).

These recent events and the impact they had on Chinese resource interests in the countries affected, have raised Beijing’s awareness of the volatility of Africa’s political context. As China accumulates experiences in the continent, it is becoming more aware of the need to engage with all stakeholders, and in a more constructive way. These changes notwithstanding, contrast with China’s uncompromising posture regarding the political situation in Zimbabwe, another African state over which China has influence, but whose own regime continues to receive the backing of important countries like South Africa. This suggests that changes in China’s policy are mostly *ad hoc* and prompted by strong African pressure or by reaction to changing circumstances.

Conclusion: Reflections on natural resources and Africa’s Chinese future

Though much is made of China’s unique relationship with Africa, in fact China’s foray in Africa follows patterns that were previously set by traditional partners in so far as it emphasizes local elites, is founded on resource backed loans, and subscribes to a clear profit motive. African resources remain the primary draw for outside investment and a key challenge for Africans and development practitioners alike is to take this economic driver of engagement and use it to promote a developmental agenda for Africa. Doing so requires African governments to demonstrate leadership and innovative thinking, building upon the best established practices from their own experience with traditional partners and integrating these with the insights and policies of emerging economies.

The most significant impact that China has had on Africa's resource sector is that, it offers a new opportunity for Africa to reshape its relationships with external partners in ways that can enhance its overall development prospects. It is a relationship which will continue to grow as a priority for Beijing, as witnessed by the announcement by Beijing at the FOCAC V ministerial in July 2012 to provide a further \$20 billion in loans to Africa. For its own part, China has proven to be sensitive to African and international pressure, having recently introduced changes in its policies towards the continent. Unfortunately, policy shifts in Beijing do not necessarily translate in tangible changes at the bottom of the chain; national (ideational) and corporate (profit driven) interests do not always overlap and there is no effective supervision mechanism to ensure compliance.

Bearing in mind that China as shown signs of sensitiveness to external pressure – explained by the need to please some constituencies in the West (the urge to play the 'responsible stakeholder' role) – there is a strategic role to be played by civil society and international institutions in this process – not only over Chinese conduct but most especially around the policy choices and implementation strategies on natural resources by local African governments. Amongst the measures that could be encouraged would be the introduction of effective surveillance and related mechanisms to ensure compliance by all players involved in this sector, including traditional Western partners. Equally, international and African actors could do more to ensure local beneficiation and promote policy regimes at the regional and continental levels aimed at improving African development, be they environmental regulations, labour standards or improving taxation collection revenues. For example, the highlighting of best practice by African firms would be particularly useful and informative for Chinese firms. More generally, having African stakeholders working more closely with Chinese authorities (who are increasingly aware of the political and economic cost to their interests in African countries like Zambia and South Sudan) would provide another lever to ensure better governance. In this way, those natural resources which have too often been seen to be a form of 'curse' can truly act as the source for African development.

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¹ IMF and IDA instrument created in 1996 and enhanced in 1999, to provide debt relief to the world's most 'heavily indebted poor countries'. The criteria that a country needs to meet before becoming eligible.

Under the initiative can include good governance, accountability for public funds and the adoption of a national anti-corruption strategy.

² The initiative, that was launched in 2005 by a coalition of governments, companies, civil society groups, investors and international organizations, sets a global standard for companies to publish what they pay and for governments to disclose what they receive. There are presently 23 candidate states, mostly from Sub-Saharan Africa.

³ The Kimberley Process Certification process imposes extensive requirements on its members to enable them to certify shipments of rough diamonds as 'conflict-free' and prevent conflict diamonds from entering the legitimate trade.

⁴ Initiative to promote greater transparency and accountability in the extraction of natural resources such as oil, gas, minerals and timber.

⁵ The principles are a voluntary set of guidelines based on International Finance Corporation (IFC) policies to incorporate social and environmental issues in project financing.

⁶ In this, China is not alone as other emerging economies, such as India, Brazil and South Africa, which are acquiring growing stakes in African natural resources, have failed to produce solid proof of commitment to the initiative, arousing growing concern among OECD countries.

