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Tracking China's Investment in Africa's Extractive Industry

China's economic engagement with Africa has grown unprecedentedly since the inaugural Forum on China-Africa Cooperation (FOCAC) in 2000. This has led to investments across multiple countries and sectors. However, there have been concerns concerning Chinese investment concentration in resource-rich countries. The fact is that China has a significant presence in Africa's extractive industry.

Chinese investment is still sustaining the raw extractive export model. Investments from other East Asian countries, such as Malaysia and Singapore, have primarily focused on downstream activities, contributing to the resource value chain. This is critical to ensuring stronger and more resilient economies for countries vulnerable to commodity price fluctuations and shocks.

Africa's extractive resources

The African continent has vast reserves of extractive resources, including petroleum and natural gas, iron ore, aluminium, uranium, nickel, copper, bauxite, diamond, gold, copper, cobalt, and other minerals. These resources account for an average of 70% of total African exports and 28% of Africa's GDP. In 2012, Botswana, Zambia, Eritrea, and Guinea had a raw extractive resource export share of 91.6%, 69.2%, 60.5%, and 60.1% of total exports, respectively.

According to a 2016 estimate by the African Development Bank, the extractive industry is expected to contribute more than US$30bn per year to African government revenue over the next 20 years.

	2000			2010		
	Africa's share of global production in %	Value of Africa's production (2010 USD M)	Number of countries 2000	Africa's share of global production in %	Value of Africa's production (2010 USD M)	Number of countries 2000
PGMs	55	10 588	1	74	14 191	4
Cobalt	43	490	6	62	1 775	8
Diamonds	45	4 265	16	54	4 967	17
Chromite	51	1 578	4	42	2 442	4
Manganese	32	493	4	30	3 131	8
Phosphates	28	4 607	10	26	5 662	10
Gold	24	25 568	36	19	19 947	39
Uranium	17	111	3	19	1 013	4
Copper	3	2 871	11	8	7 806	12
Nickel	5	1 225	5	5	1 535	5
Iron ore	5	4 637	10	4	6 404	9
Mining total	14	59 592	44	12	73 286	44
Oil	10	216 001	18	11	284 875	19
Gas	5	39 036	14	7	68 423	18
Coal	6	21 266	15	4	23 759	13
Energy total	10	276 303	11	377 056		36
Food	8	195 082	54	9	260 910	54
Non Food	8	5 618	54	6	5 729	54
Agriculture t.	8	200 675	54	9	266 605	54
Timber	12%	77 267	46	13%	87 229	54

Table 1: *Africa's resource production and future potential (Sources: African Development Bank, 2016)*

Chinese investments in Africa's extractive industry

FOCAC was established in 2000 to guide China-Africa engagement, and China issued its first African policy paper in 2006. FOCAC's top priority is to increase Chinese direct investment in Africa, which has skyrocketed over the last two decades, far outpacing any East Asian country and the United States.

Fig. 1: *Chinese and U.S. direct investment flow to Africa (Sources: China-Africa Research Initiative 2021)*

In 2019, the Democratic Republic of the Congo (DRC), Angola, Ethiopia, South Africa, and Mauritius were the top five Chinese investment destinations. The China Exim Bank has extended and granted loans and commercial projects in over 35 African countries, but a large portion has benefited resource-rich countries.

China's economic boom a few decades ago resulted in an insatiable demand for resource commodities, leading to massive investments in the extractive sector in resource-rich developing countries, including African countries.

China has been attempting to expand its economic influence in resource-rich African countries by utilising enhanced bilateral and multilateral diplomatic relations to pursue access to strategic resources such as oil, copper, and other mineral resources.

Between 2006 and 2017, Chinese investment in the African mining industry reached an estimated US$33bn, and some resource-rich African countries have also reached agreements backed by resources. For example, China is exchanging its Angolan infrastructure investments for its oil and bauxite reserves in Ghana and Guinea.

The Forecast

The COVID-19 pandemic has had a significant impact on global flows. According to the 2021 World Investment Report by UNCTAD, the flow of global direct investment in 2020 fell by one-third to US$1tr (from US$1.5tr in 2019). African countries are among the most heavily impacted countries. For example, the stock of foreign direct investment in Angola dropped significantly from US$32.4bn in 2019 to US$16.8bn in 2020.

As seen in Angola, Guinea, and Ghana, China's current resource-for-infrastructure model will likely spread to other resource-rich African nations deemed high-risk borrowers or that do not meet the requirements for conventional international financial agreements.

This is because the resource-for-infrastructure model guarantees repayment through resource reserves to the creditor, China, and financing for desperately needed infrastructure projects in receiving countries.

In light of the COVID-19 pandemic's impact on global capital flows, the question is whether China will reduce or maintain its extractive industry-focused lending and investment commitments to Africa. This is crucial because China must still fulfil its obligations under certain existing agreements. Three years after signing the $2 billion Ghana-China bauxite-for-infrastructure concession agreement, China has only provided $100 million of the total commitment, and most of the promised infrastructure projects still need to be completed. This aspect of the China-Africa engagement must be addressed to provide resource-rich African nations with a road map for better leveraging their extractive industries to meet their development needs.

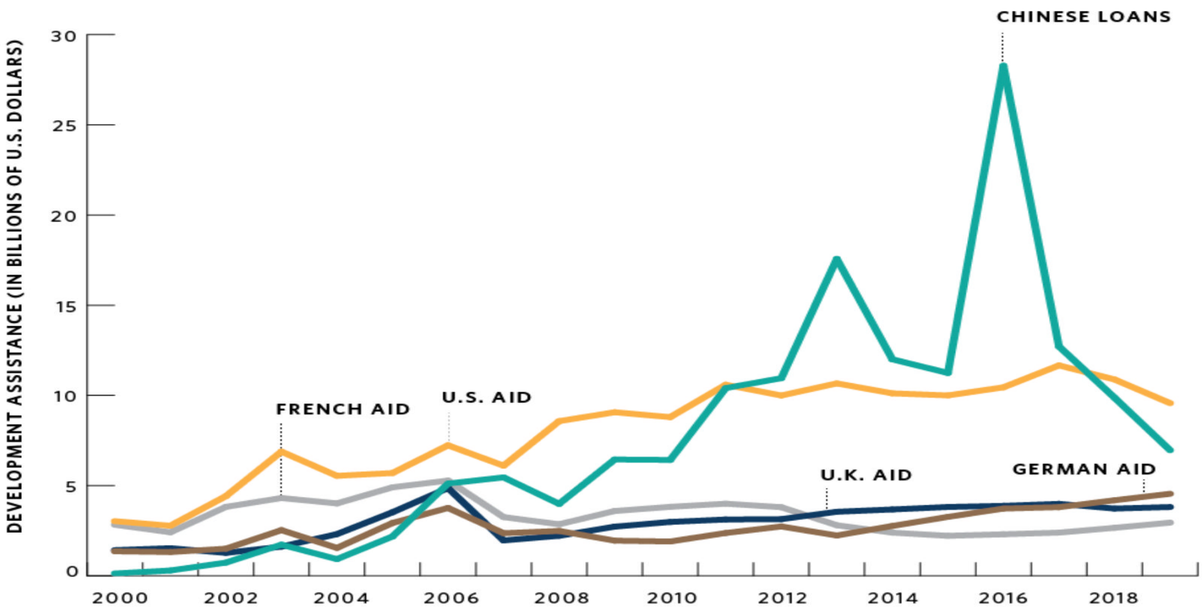

Fig. 3: *Chinese lending to Africa: 2000–2020 (Source: Zainub Usman, 2021).*

The Returns

Resource-rich African countries have benefited from Chinese resource demand in driving global commodity prices, direct investments, and market access. The positive impact on Africa’s economic transformation at both the micro and macro levels is palpable. For example, China's involvement in Sudan has significantly increased oil production, increased foreign investment, and accelerated economic growth. The oil boom significantly increased foreign investment in Sudan and accelerated economic growth and prospects, peaking at 10% by 2006.

Furthermore, this infrastructure-for-resources model has had a significant impact on reducing infrastructure deficits in some African countries. The Chinese financing of the Congo River Dam in DRC, the Bui Dam in Ghana, and the Souapiti Dam in Guinea were all secured through resource guarantees. China has spent an estimated US$80m to rebuild the national road connecting Uige to Maquela do Zombo in Angola.

Last but not least, Chinese investment has resulted in significant employment creation in several African countries. Chinese investment accounts for over 60% of newly created jobs in Angola and Ethiopia. Indeed, about 89 % of employees of Chinese investment projects are Africans, creating over 300,000 jobs for Africans.

The way forward

China is one of many foreign investors in Africa's extractive industry. Other East Asian countries like Malaysia and Singapore have expressed interest in the industry. Malaysia surpassed all Asian countries as the top investor in Africa in 2011, with Petronas making significant investments in Sudan and Egypt's downstream activities. Malaysia also owns 80% of Engen, South Africa's largest refined petroleum company. Singapore's direct investment in Africa is notable, totalling more than US$16bn in 2013. Temasek Holdings became a significant shareholder in Nigerian oil and gas group Seven Energy in 2014, and Pavilion Energy invested US$1.3 billion in three gas blocks offshore Tanzania.

By comparison, Chinese extractive investments focus primarily on upstream activities, while Malaysian and Singaporean firms focus mainly on downstream activities. Despite promises to help grow the extractive industries, the investment has yet to transform the value chain of Africa's extractive industry.

In 2011, despite having 26% of the world's bauxite reserves, Africa produced only 4% of the primary aluminium. However, there is still hope that Chinese investment will contribute to the diversification of the resource value chain.

The Ghana-China resource-for-infrastructure deal is a new model for other African countries to follow. Ghana would establish an integrated aluminium company to process and refine raw bauxite into more valuable refined products. Chiman Manufacturing, a Chinese-owned company, has invested in a manganese processing plant in Zambia, indicating some hope in the resource value chain.

The challenge for resource-rich African countries is to leverage Chinese investment in the extractive industry to achieve long-term economic diversification. To do this, more attention must be paid to diversifying the resources value chain through industrial processing and value addition. This is critical to ensuring more robust and resilient economies for countries whose economies are highly vulnerable to commodity price fluctuations and commodity shocks.

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