

**CHINA'S ECONOMIC ACTIVITIES IN AFRICA: TRADE,
FOREIGN DIRECT INVESTMENT AND AID**

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ABSTRACT

The paper examines the nature of China's economic activities in Africa in three dimensions: merchandise trade, foreign direct investment, and aid. These are three main channels through which China's presence on the continent affects Africa's economic growth and development. China's economic relations with Africa are, to a large extent, driven by Chinese demand for natural resources, especially oil and minerals. It is the most visible in Sino-African trade, where fuels alone account for about two thirds of China's imports from Africa. Natural resource extraction has also significant impact on Chinese decisions regarding foreign direct investment (FDI) and aid. Mutual cooperation between China and Africa has brought obvious advantages for both sides. For African countries, closer trade relations with China have been associated with gains in the form of lower import prices and improving terms of trade. Chinese FDI in non-extractive sectors has become a chance for economic diversification on the African continent. China's aid and FDI can significantly contribute to the development of local infrastructure and technology upgrading. However, China's economic presence on the continent has also its negative side. African countries may suffer, for example, from trade related losses, unfair competition or further debt accumulation.

Keywords: *China, Africa, trade, foreign direct investment, aid*

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INTRODUCTION

The economic relations between China and Africa have a long history. Trade contacts between the two regions were established in the 2nd century BC during the period of the first Han emperors (Shanghai Institutes for

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International Studies and Friedrich-Ebert-Stiftung, 2008). The mutual relations were extended in the mid-19th century when the systematic migration from China to Africa began. It was associated with the so-called coolie trade which followed the abolishing of slavery (Mohan & Kale, 2007)¹.

With the establishment of the People's Republic of China, Sino-African ties deepened, however, they became highly political. After the Bandung Conference in 1955, which called for Afro-Asian economic and cultural cooperation and opposing colonialism or neocolonialism, China supported the independence movements in Africa and tried to export communist ideas to the African continent. It also offered the African countries financial and technical aid, prestige construction projects, and military support (Renard, 2011; Adisu, Sharkey & Okoroafo, 2010). Nonetheless, China-Africa relations changed significantly with the implementation of Chinese economic reforms which were initiated in the late 1970s. China's activities in Africa have become profit-centered rather than ideologically-based (Park, 2009; Renard, 2011).

Since 2000, Sino-African relations have been developed under the Forum on China-Africa Cooperation (FOCAC). The forum provides a platform for collective consultation, dialogue, and cooperation. It is driven by joint ministerial conferences which are held every three years and are attended by heads of state and high ranking state representatives.

The objective of the paper is to examine the nature of China's economic activities in Africa in three dimensions: merchandise trade, foreign direct investment, and aid. These are three main channels through which China's presence on the continent affects Africa's economic growth and development. The paper is based mainly on the analysis of the latest statistical data and various empirical findings from the literature.

AFRICA-CHINA MERCHANDISE TRADE

The value of Africa's merchandise trade with China has grown substantially since the mid-1990s. As can be seen in figure 1, Africa's exports to China rose from US\$0.95 billion in 1995 to US\$64.84 billion in 2010. Over the same period, African imports from China increased from US\$2.39 billion to US\$59.33 billion. The sharp growth in Africa-China trade has been observed particularly since the early 2000s. From 2002 to 2010, the value of total bilateral merchandise trade increased almost twelvefold. The average annual growth rate in Africa-China trade equaled about 15 per cent in 1995-2001 and then tripled to 45 per cent in 2002-2008. Although the global

¹ The coolie trade focused mainly on high labour demand sectors, mainly plantation, mining, and railway construction. Mohan and Kale, 2007.

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economic crisis led to a decrease in bilateral trade by 11 per cent in 2009, in 2010 its value was 24 per cent higher than in 2008.

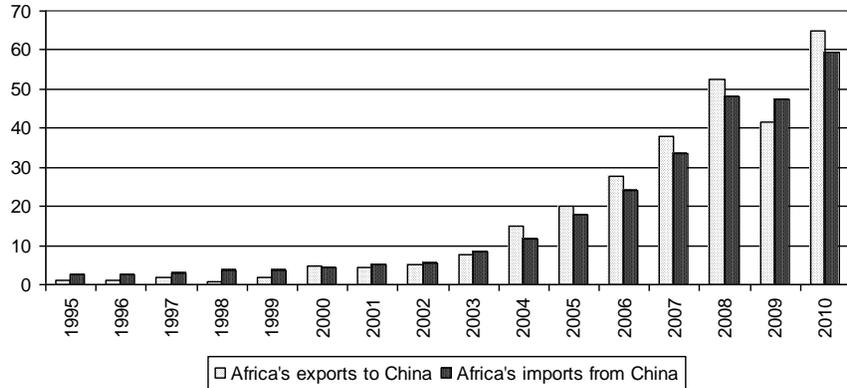


Figure 1: Africa's Merchandise Trade with China in 1995-2010 (billions of US\$)

Source: UNCTAD, 2012.

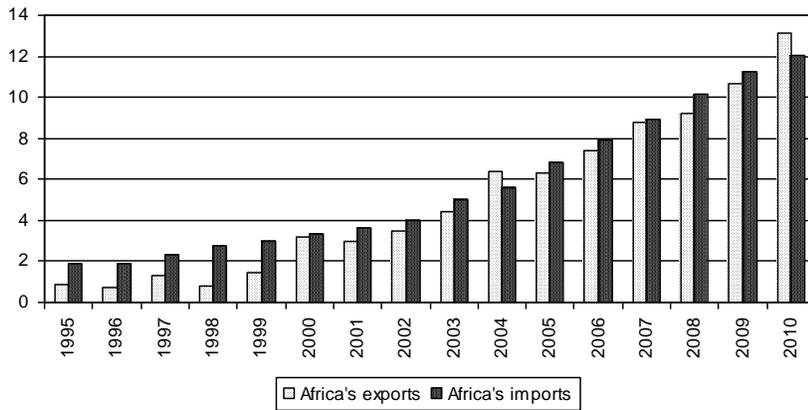


Figure 2: China's Share in African Merchandise Trade, 1995-2010 (%)

Source: UNCTAD, 2012.

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Since 1995, Africa's trade with China has been growing faster than with the rest of the world. As a result, China's share in African merchandise trade has risen significantly (figure 2). In 1995, China accounted for 0.8 per cent of African exports and 1.9 per cent of African imports. However, by 2010, these shares had increased to 13.2 per cent and 12.1 per cent, respectively. Consequently, China has become the leading individual country trading partner for Africa. In 2010, China was the largest exporter to Africa and the second most important market for African goods after the United States (figure 3).

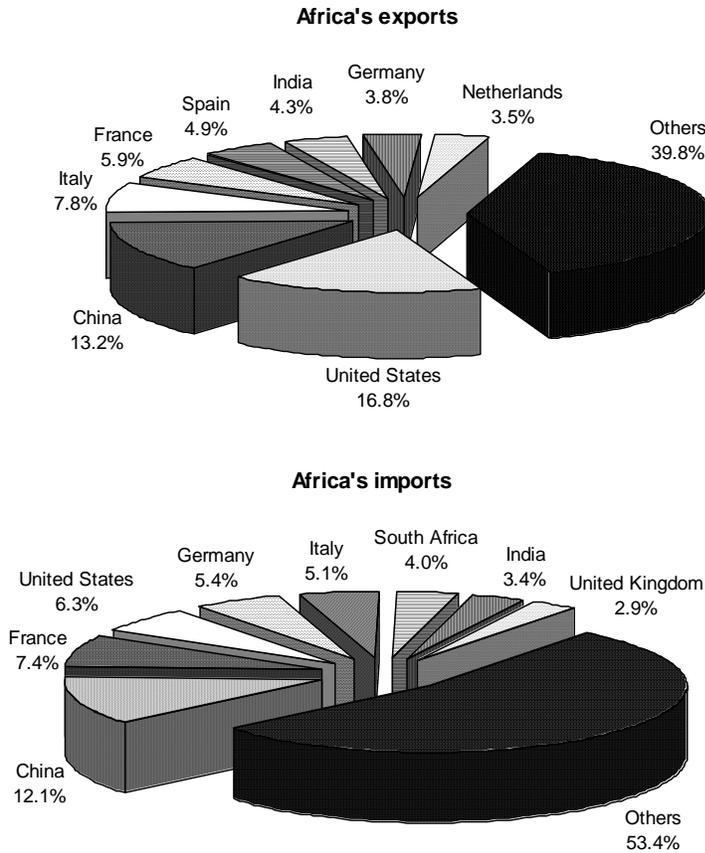


Figure 3: Geographical Breakdown of Africa's Merchandise Trade, 2010

Source: Own calculations based on UNCTAD, 2012.

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It should be noted that the increasing role of China in Africa's international trade coincides with the emergence of this country as a major economic and trade power. In 1995, China was the eighth largest economy in the world with GDP ten times smaller than that of the United States. At the same time, it accounted for 2.9 per cent of global exports and 2.5 per cent of global imports. In 2010, Chinese economy was the world's second-largest, with GDP approaching half the size of that of the United States. China has also become the world's largest exporter of goods (10.3 per cent of global exports in 2010) and the second-largest importer of goods (9.5 per cent of global imports in 2010) (IMF, 2012 and WTO, 2012).

Oyejide, Abiodun-S and Adeolu (2009) indicate three factors standing behind the emergence of China as the world's economic power. Firstly, since the 1980s, China has experienced very high GDP growth rates averaging about 10 per cent annually. Secondly, China is the most populated country in the world, which, along with the combination of rapidly growing income, constitutes the solid domestic economic basis for further economic expansion. Thirdly, China has shifted towards an outward-oriented development strategy. This country has focused on developing an export-led manufacturing sector whose competitiveness has been supported by relatively low labour costs. China's rapid economic growth has inevitably created a strong demand for energy and primary inputs, which has led to strong increases in Chinese imports.

Fuels, ores, and metals constitute the overwhelming majority of China's imports from Africa (figure 4). In 2010, they accounted for 90 per cent of African exports to China, split between fuels (67 per cent) and ores and metals (23 per cent). The share of other primary commodities in African exports to China did not exceed a few per cent. Merchandise goods provided only 4 per cent of the total. It should be added that the structure of African exports to China differs to some extent from the composition of goods exported by Africa to the whole world. In 2010, manufactured goods accounted for 18 per cent of all African exports, fuels for 57 per cent, and ores and metals for 10 per cent (UNCTAD, 2012).

It is worth noting that China's imports from Africa show a high degree of concentration in a few countries. In 2010, Angola, South Africa, Sudan, Libya, Congo, and Zambia accounted for more than 80 per cent of China's imports from the continent. Angola and South Africa alone made up 56 per cent of the total (UNCTAD, 2012). Angola, which is the top oil producer in Africa, and a country where crude oil composed 95.9 per cent of exports in 2010, is the largest source of oil for China on the continent (Zhao, 2011). In turn, South Africa's exports to China have been concentrated on ores and metals (about 70 per cent of total exports to China in 2010; UNCTAD, 2012).

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In particular, South Africa is one of the China's largest supplier of iron ore (Hellström, 2009).

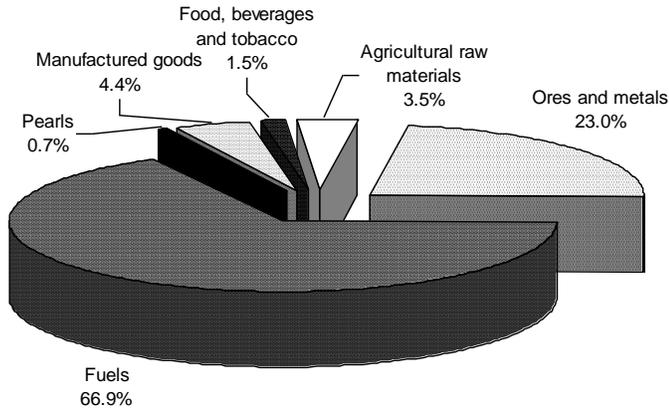


Figure 4: Composition of Africa's Exports to China by Main Products, 2010

Source: Own calculations based on UNCTAD, 2012.

In order to enhance African exports, China started to facilitate the entry of African goods into its market. In 2006, China offered zero-tariff treatment for nearly 200 goods from the least developed African countries. In 2007, the number of African goods exempt from tariffs was increased to 440 (Osei-Hwedie, 2012). In 2009, Chinese authorities announced that by 2010 zero-tariff treatment would have been extended to 60 per cent of commodities imported from the least developed African countries having diplomatic relations with China, and afterwards gradually to 95 per cent (Information Office of the State Council of the People's Republic of China, 2009). In November 2011, Chinese President, Hu Jintao, declared that China would expand duty-free access to its market to 97 per cent of the tariff items of imports from the least developed countries with diplomatic ties with China (Shixue, 2011).

As far as China's exports are concerned, among the most important African trading partners of this country are: South Africa, Nigeria, Egypt, Liberia, Algeria, Morocco. In 2010, these top six African recipients of Chinese goods accounted for about 58 per cent of China's exports to the continent (UNCTAD, 2012). Africa's imports from China are dominated by manufactured goods (figure 5). In 2010, the most important constituents of

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Chinese manufactured products imported by Africa were: machinery and transport equipment (46 per cent of total African imports from China), textile fibers, yarn, fabrics and clothing (13 per cent), and iron and steel (5 per cent). The structure of China's exports to Africa has changed significantly over the last three decades. In the 1980s and 1990s, China exported to Africa mainly textiles and clothing, light industrial products, food, chemical products, native produce, and animal by-products. Since the 2000s, technologically advanced products such as machinery, electronics and telecommunications equipment, automobiles or even aircraft and locomotives have remarkably increased their shares in continent's imports from China (Chinese Academy of International Trade and Economic Cooperation, 2010).

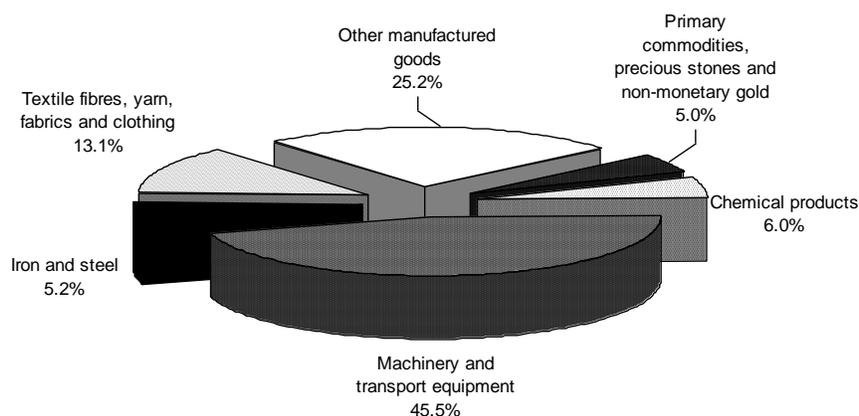


Figure 5: Composition of Africa's Imports to China by Main Products, 2010

Source: Own calculations based on UNCTAD, 2012.

There is no doubt that the structure of Sino-African manufactured trade reflects two very important aspects of the Chinese strategy in Africa: firstly, seeking steady sources of raw materials which are needed to sustain China's strong economic growth and, secondly, gaining markets for huge quantities of Chinese low-cost manufactured goods (Montinari & Prodi, 2011).

In the literature, increasing attention is paid to the impact of Sino-African trade on the African economies. It can be argued that the continent may benefit substantially from deepening trade relations with China (Chen, 2007). First of all, growing Chinese demand for Africa's primary commodities, resulting in higher prices, positively affects terms of trade of the African

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economies. For instance, Wang's estimates suggest that between 2001 and 2006 continent's terms of trade with China improved by 80 to 90 per cent (Wang, 2007). Moreover, along with the increasing purchasing power of the Chinese population and its growing demand for goods, Africa is likely to take advantage of expanding exports of both traditional agricultural products and various nontraditional products such as light manufactured goods, household consumer goods, etc. In addition, further trade related gains for African countries may be associated with other export opportunities awaiting the region. They may arise from shifts in China's comparative advantage within and across particular sectors. For example, as some Chinese farmers have switched their production from cotton to more profitable crops, imports of cotton from Africa to meet rising demand from China's textile industry have increased. Finally, African consumers may benefit from greater access to cheap labour-intensive goods and local producers from imports of cheap Chinese technological products, which may enhance productivity and economic growth.

However, trade relations with China may also have a negative impact on the African economies. Firstly, some African producers may not be able to compete with cheap Chinese goods and be at risk of being displaced from certain businesses². It should be noted that such a phenomenon has already been observed in some countries. It is claimed that cheap Chinese imports have caused material injury to many industries: from footwear plants in Ethiopia to furniture makers in Ghana ("China-Africa", 2011). Secondly, potential losses for the African countries may be associated with rising dependence on natural resources exports, which cannot be considered to be a secure path to development (Chen, 2007).

As Oyejide, Abiodun and Adeolu (2009) claim, the impact of Sino-African trade on the African economies is likely to vary across different countries of the region depending on the structure of their exports and imports.

CHINA'S FOREIGN DIRECT INVESTMENT IN AFRICA

Since the early 1980s, foreign direct investment (FDI) inflows to Africa have increased substantially (figure 6). The average annual FDI inflows to the continent, which equaled US\$2.20 billion in the 1980s, rose to US\$6.70 billion in the 1990s and then to US\$18.02 billion in 2000-2004. In 2005-2010, FDI inflows soared to US\$56.03 billion. In 2008, inflows reached an all-time peak of US\$73.41 billion but as a result of the global economic crisis they fell to US\$60.17 billion in 2009 and US\$55.04 billion in 2010. From 1980 to 2010,

² Countries exporting products similar to those exporting by China are also likely to suffer from falling export prices (Oyejide, 2009).

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FDI inward stock in Africa increased more than thirteen fold, rising from US\$41.10 billion in 1980 to US\$60.67 billion in 1990, US\$154.27 billion in 2000 and US\$553.98 billion in 2010.

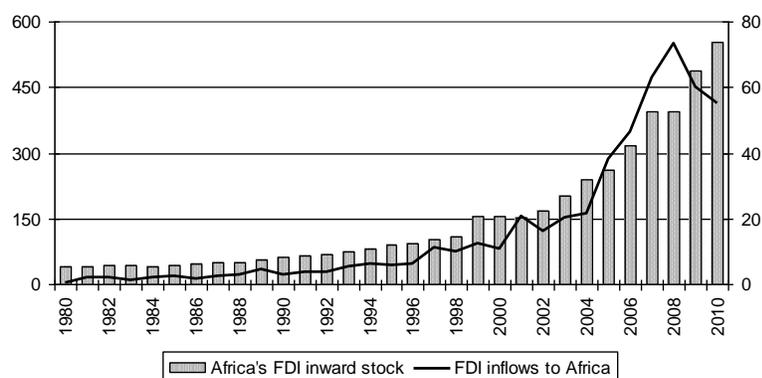


Figure 6: FDI Inflows to Africa (right axis) and Africa's FDI Inward Stock (left axis), 1980-2010 (billions of US\$)

Source: UNCTAD, 2012.

Despite the unprecedented growth in FDI inflows to Africa in absolute terms, the continent's share in total FDI inflows to all developing countries has stayed at a very low level. Africa's share in FDI inflows to developing countries averaged only 10.2 per cent in 2000-2010 compared to 29.3 per cent in Latin America and the Caribbean, and 60.3 per cent in developing Asia. In turn, the share of Africa in total FDI inward stock of all developing countries equaled 11.7 per cent in 1990, 8.9 per cent in 2000 and 9.3 per cent in 2010. To compare, in 2010 the corresponding shares for FDI inward stocks in Latin America and the Caribbean, and developing Asia reached respectively 28.9 and 61.6 per cent (own calculations based on UNCTAD, 2012).

It should be noted that geographical distribution of FDI in Africa is markedly uneven. Among the six top African recipients of FDI, i.e. countries with the largest FDI inward stocks, there are: South Africa, Egypt, Nigeria, Morocco, Tunisia, and Angola. At the end of 2010, these countries accounted for nearly two thirds of total FDI inward stock in Africa. South Africa and Egypt alone made up almost half of the total. On the contrary, at the end of 2010, thirty one African least developed countries accounted for 21.8 per

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cent of total continent's FDI inward stock (own calculations based on UNCTAD, 2012).

As to the sources of FDI on the continent, accurate data are missing. The UNCTAD study (UNCTAD 2010) indicates developed countries to be the most important source of FDI for Africa. Their share in total FDI inflows into the continent averaged 79.0 per cent in 1995-1999 and 72.1 per cent in 2000-2008. The same group of countries accounted for 89.0 per cent of total FDI inward stock in Africa in 1999 and 91.6 per cent in 2008. The role of developing countries as a source of FDI for the region is growing. In 2000-2008, Asia accounted for about 73 per cent of FDI to Africa from developing countries, followed by Africa (intra-regional investment) – 24 per cent, and Latin America and the Caribbean – 3 per cent.

The importance of China as a source of FDI for Africa has increased substantially since the early 2000s, along with the emergence of China as a significant capital exporter. Before 1990, hardly any Chinese FDI project exceeded US\$5 million (Marafa, 2009). In the 1990s, China's FDI outward stock remained small and stood at below US\$27 billion at the end of the decade, according to UNCTAD data. In 1999, the Chinese authorities initiated "going out" policy with the aim of encouraging domestic enterprises to invest abroad. After 2003, Chinese FDI outflows increased dramatically from US\$5.5 billion in 2004 to US\$22.5 billion in 2007 and US\$68.0 billion in 2010. Over the same period, China's FDI outward stock rose almost sevenfold from about US\$45 billion in 2004 to nearly US\$300 billion in 2010 (UNCTAD, 2012)³.

By 2000, Chinese investors had undertaken 499 projects in Africa, worth a total of US\$0,68 billion. Only 30 projects exceeded US\$10 million (United Nations, 2007). Chinese investors became increasingly involved in the continent after 2003. According to data of Ministry of Commerce of the People's Republic of China (2011), Chinese FDI flows to Africa increased from US\$0.32 billion in 2004 to US\$5.49 billion in 2008 and then declined to US\$1.44 billion in 2009 and US\$2.11 billion in 2010. However, the importance of Africa as a recipient of Chinese outward FDI seems to be relatively small comparing to other regions. In 2006-2010, Africa absorbed only 4.9 per cent of total China's FDI outward flows. Over the period, the primary recipient of Chinese capital was Asia which attracted 67.9 per cent of total China's outward FDI. Latin America, which accounted for 15.5 per cent of total Chinese outward FDI, was the second largest recipient. Europe was ranked third with its share of 5.8 per cent, slightly higher than that of Africa. North America and Oceania were ranked behind Africa (own calculations

³ The above data provided by UNCTAD differ slightly from data of Ministry of Commerce of the People's Republic of China.

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based on data of Ministry of Commerce of the People's Republic of China, 2011).

However, it should be noted that at the individual economy level, the largest recipient of China's outward FDI is Hong Kong. This special administrative region of China accounted for 59.1 per cent of total China's outward FDI in 2006-2010. If Hong Kong is excluded, the importance of Africa in China's foreign investment strategy rises significantly, as continent's share in China's outward FDI increases to 12.1 per cent (own calculations based on data of Ministry of Commerce of the People's Republic of China, 2011).

At the end of 2010, China's FDI stock in Africa stood at the level of about US\$13 billion and its share in continent's total FDI inward stock only slightly exceeded 2 per cent. However, it is noticeable that China's presence in Africa as a provider of FDI is getting more and more important. While in 2004-2006, China accounted for only a little more than 1 per cent of total FDI inflows to Africa, by 2007-2010 that number had risen to over 4 per cent (own calculations based on data of Ministry of Commerce of the People's Republic of China, 2011 and UNCTAD 2012)⁴.

Chinese investors are present in most African countries, although their activities do not spread evenly across the continent. The most important role in the region in attracting Chinese FDI is played by South Africa, the country with the largest GDP. In 2010, the share of South Africa in total Chinese FDI stock in the continent reached 31.8 per cent compared to 9.3 per cent of Nigeria, which was ranked second in the list of top African recipients of Chinese FDI. These two countries with Zambia, Algeria, Sudan and the Democratic Republic of Congo, which were ranked third, fourth, fifth, and sixth respectively, accounted together for two thirds of Chinese FDI stock in Africa at the end of 2010 (figure 7).

Scarcity of data on the sectoral composition of Chinese FDI in Africa makes it difficult to examine precisely the nature of China's investment projects on the continent. However, it is widely claimed that Chinese FDI in Africa is concentrated in a few sectors, particularly in the mining industry (Ajakaiye, 2006). Natural resource seeking FDI is considered to be the most common form of Chinese investment in Africa. Nevertheless, according to data of Business Monitor International Ltd, mining constituted only 29.2 per cent of China's FDI stock in Africa up to 2009. The relevant number for manufacturing was 22.0 per cent, 15.8 per cent for construction, and 13.9 per cent for financing. In terms of the number of investment projects, the

⁴ It should be noted, however, that according to some authors Chinese official statistics may underestimate the true magnitude of China's FDI in Africa. See for example Wang, 2007.

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prevalence of FDI in the mining sector is even lower. A study of 450 Chinese FDI projects in Africa in 2009 revealed that 46 per cent of them were in manufacturing, 40 per cent in services, and only 9 per cent in resource related sectors ("China-Africa", 2011).

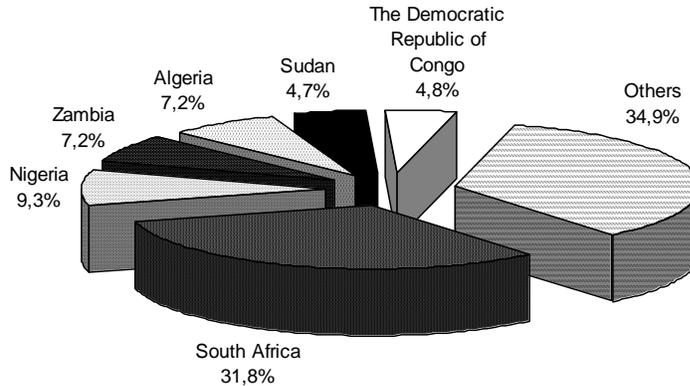


Figure 7: Geographical Breakdown of China's FDI Outward Stock in Africa at the end of 2010

Source: Own calculations based on data of Ministry of Commerce of the People's Republic of China, 2011.

Chinese enterprises have been encouraged by China's authorities to invest in Africa, especially in the areas of industrial processing, agriculture, natural resources, infrastructure and real estate development (UNCTAD, 2007). In order to promote Chinese investment in Africa, in 2007, the Chinese government established the China-Africa Development Fund. The Fund provides Chinese investors on the continent with a wide range of services including project and financial consultation or management advice. In addition, it supports Chinese firms to seek potential investment projects in Africa, helps African projects find Chinese partners, etc. (China-Africa Development Fund, 2012). The Fund may invest in Chinese enterprises which operate or plan to operate in Africa and invest directly in projects with the Chinese firms, however, it does not take controlling stakes (China Development Bank, 2012). In 2009, the Fund accounted for about one third of total Chinese investment in Africa, if its own direct capital and investment of other Chinese enterprises facilitated by the Fund are taken together (Yan, 2010).

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The Chinese authorities also provide many other facilities to encourage domestic enterprises to invest in Africa. They include, inter alia, concessional loans with lower interest rates and tax incentives (Weisbrod & Whalley, 2011).

Kaplinsky and Morris (2009), who analyze China's FDI in Sub-Saharan Africa, identify two main categories of Chinese enterprises investing in the region. The first category consists of predominantly state-owned companies, which invest mostly in natural resource extraction and infrastructure. They are segmented into enterprises owned by and accountable to the central government and those accountable to provincial governments. The second category covers predominantly private-owned enterprises. They are divided into companies incorporated in China and Sub-Saharan Africa, and in Sub-Saharan Africa only. The former include small and medium firms, as well as a limited number of very large firms, the latter mainly micro to small enterprises. The medium and large Chinese enterprises which are present in Africa operate mostly in the manufacturing, communications sectors and in wholesale trading. Small enterprises focus mainly on petty manufacturing and on small scale retail.

The effects of FDI on economic growth in Africa, especially the sub-Saharan part of the continent, have been a subject of many studies. Evidence provided by those studies seems to be mixed, however⁵. In particular, it has been claimed that investment in extractive sectors, which constitutes a significant part of African FDI inward stock, is not likely to contribute much to broad-based development, due to limited backward and forward linkages, and spillover effects (UNCTAD, 2005). Moreover, as the technology employed in natural resource extraction is capital rather than labour intensive, large numbers of jobs are also unlikely to be created (Adams, 2009). Some studies suggest that Africa could benefit more from FDI, if more investment went to non-primary industries and continent's human capital and infrastructure were upgraded (Claassen, Loots & Bezuidenhout, 2011).

Nevertheless, there is no doubt that Chinese investment may bring huge benefits for Africa. Some of these benefits have been observed so far. China's FDI has helped open new mines and sustain old ones, for instance, in the copper industry in Zambia (Osei-Hwedie, 2012). In exchange for favourable terms for extracting raw materials, Chinese investors have contributed to development of local infrastructure (Houanye & Shen, 2012). Moreover, Chinese FDI in non-extractive sectors, including manufacturing, agriculture, infrastructure and banking, may be a potential source of economic diversification. In many cases, China's investment has helped build

⁵ For the summary of those studies, see Claassen, Loots and Bezuidenhout, 2011.

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a new local industry, led to technology upgrading and helped increase exports levels. For example, in Zimbabwe, where tobacco has been among country's top export products, investors from China have helped process tobacco into cigarettes and export them as finished value-added product (Renard, 2011).

As far as the problems connected with China's FDI in Africa are concerned, Chinese enterprises are often accused of providing poor working conditions for local labour. Moreover, in construction, infrastructure and manufacturing projects, China's companies tend to rely on imported Chinese labour, which has a negative impact on employment creation in the continent. There are also complaints against unfair competition from Chinese firms. It is noted that most tenders for construction works in many African countries are won by Chinese enterprises offering lower prices. Another issue regards unfair acquisition of local properties by Chinese firms through barter practice, which poses a problem of exploitation (Osei-Hwedie, 2012).

CHINA'S AID TO AFRICA

Overcoming extreme poverty is one of the most important challenges for Africa which remains at the very top of the continent's development agenda. A vast majority of African countries are situated in the sub-Saharan part of the continent which is the poorest region in the world. In 2011, thirty three Sub-Saharan African countries were classified by the United Nations as the least developed (UN-OHRLLS, 2012). At the same time, thirty five countries of the region fell into the category of low human development by standards of the Human Development Index (HDI). The fifteen countries which were placed last in the 2011 HDI ranking were all from Sub-Saharan Africa (UNDP, 2011).

In 2008, 47 per cent of the population of Sub-Saharan Africa lived on less than \$1.25 a day, compared to 36 per cent in South Asia and 14 per cent in East Asia and Pacific (World Bank, 2012a). Sub-Saharan Africa records the world's highest prevalence of undernourishment. The proportion of undernourished people in the region reached 27 per cent in 2006-2008 (FAO, 2011). In 2008, less than one third of the population of Sub-Saharan Africa had access to improved sanitation. In 2010, 22.9 million people in the region lived with HIV. Life expectancy at birth was below 54 years in 2009 compared to 65 years in South Asia, and 72 years in developing East Asia and Pacific (World Bank, 2012b).

African countries are to a large degree aid-dependent. The continent remains the largest recipient of official development assistance (ODA) in the world. Net official development assistance received by Africa on average annually rose from US\$12.24 billion in the 1980s to US\$20.32 billion in the 1990s and US\$31.09 billion in the period of 2000-2010 (own calculations

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based on World Bank, 2012b). Before the mid 2000s, net ODA flows into Africa exceeded FDI flows into the region.

China's role as a provider of assistance to Africa dates back to the mid 1950s, however, its importance has increased significantly since the 2000s. Data on actual size of China's aid flows to the continent are scarce and fragmented, as official aid-related numbers are not reported by this country. Estimates on China's foreign assistance vary widely depending on the source and definition of assistance. Moreover, the lack of information regarding the degree of concessionality of China's loans makes it difficult to apply the definition of ODA from the OECD Development Assistance Committee (Dreher & Fuchs, 2011). One of the studies reports that China's foreign aid on the African continent reached US\$1.8 billion in 2002, US\$2.7 billion in 2004, and US\$1.0 billion in 2006 (Samy, 2010). According to another, conservative estimate, China's ODA to Africa totaled probably US\$1.2 billion in 2008, compared to US\$7.2 billion of the United States, US\$6.0 billion of the European Union, US\$4.1 billion of the World Bank, US\$3.4 billion of France, US\$2.7 billion of Germany, US\$2.6 billion of the United Kingdom, and US\$1.6 billion of France (Brautigam, 2011). The same source suggests that China's ODA to Africa could reach US\$1.4 billion in 2009. However, it is not clear which financial flows are included in these figures.

According to the Chinese Academy of International Trade and Economic Cooperation (2010), by the end of 2009, under its aid program in Africa, China had completed almost 900 full plant projects (table 1), offered substantial financial resources in the form of grants and concessional loans, delivered considerable humanitarian and technical assistance, provided medical missions, and forgiven over 300 debt repayments in thirty five least developed and heavily indebted poor countries. China's assistance has covered virtually all African countries.

Table 1: Chinese-aided full plant projects completed in Africa by 2009

Total	Agricultural projects	Industrial projects	Schools	Hospitals	Sports venues	Conference centres	Others
884	142	145	71	54	53	62	357

Source: Chinese Academy of International Trade and Economic Cooperation, 2010.

Much of the China's financial assistance to Africa is provided through low interest or interest free loans, often with flexible repayment schedules. Since 1995, China has provided government-subsidized preferential loans with the maturity of 15 to 20 years and an interest rate of about 2-3 per cent. By the end of 2009, Chinese concessional loans had been used to finance nearly

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160 projects in 39 African countries (Chinese Academy of International Trade and Economic Cooperation, 2010).

Another important component of Chinese financial assistance to Africa is export credits provided through the Ministry of Commerce and the Export-Import Bank of China. According to Fitch Ratings, between 2001 and 2010, the latter institution lent about US\$67.2 billion to Sub-Saharan African countries compared to US\$54.7 billion of loans provided by the World Bank (Bloomberg, 2012). It should be added that loans provided by Chinese policy banks are not regarded as ODA but as "other official flows" (Dreher & Fuchs, 2011).

Subsidized infrastructural investment projects are of key importance for African countries. China has contributed to development of Africa's infrastructure in many areas, including bridges, roads, railroads, dams, electricity, airports, hospitals, schools, stadiums, etc. (Osei-Hwedie, 2012). The Chinese Academy of International Trade and Economic Cooperation (2010) reports that by the end of 2009 China had helped Africa to complete over 500 infrastructure projects. It constructed, among others, more than 2,200 kilometers of railways, nearly 3400 kilometers of highways, 11 bridges, 104 public buildings, and sports venues for 780,000 spectators.

However, many experts note that China's aid is closely linked to Chinese trade and investment interests. It reflects, to a large degree, a China's desire to secure the access to oil and mineral resources for its economy. The U.S. Congressional Research Service (2009) reports that almost 70 per cent of China's infrastructure financing in Africa is concentrated in four oil-rich countries: Angola, Nigeria, Ethiopia, and Sudan. Additionally, Angola, Congo, and Sudan use oil to pay for much of the Chinese assistance.

China's role in Africa as a provider of economic assistance has come under some critical scrutiny in recent years. It is emphasized that in contrast to development assistance from western donors, China's economic aid to Africa is not a subject of policy conditionality. As a matter of fact, the only condition, which China imposes, is the endorsement of one-China policy that embraces the problem of Taiwan issue (Ajakaiye, 2006). There have been concerns that such practices may make it more difficult to trigger democratic changes and stricter adherence to human rights standards in the African countries (Hellström, 2009).

Another concern regards tying China's loans to involvement of Chinese enterprises. China's firms are required to be construction contractors and/or equipment and material suppliers, when infrastructure construction projects under Chinese ODA programs are performed. This principle conflicts with current lending practices developed by the Organization for Economic Cooperation and Development (Hellström, 2009).

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Finally, it is claimed that China's emergence as a source of concessional loans for African countries has increased the risk of further debt accumulation in the region (Hellström, 2009).

CONCLUSIONS

China's economic relations with Africa are, to a large extent, driven by Chinese demand for natural resources, especially oil and minerals. It is the most visible in Sino-African trade, where fuels alone account for about two thirds of China's imports from Africa. However, as it has been shown, natural resource extraction has also significant impact on Chinese decisions regarding FDI and aid.

There is no doubt that mutual cooperation between China and Africa has brought obvious advantages for both sides. For African countries, closer trade relations with China have been associated with gains in the form of lower import prices and improving terms of trade. Chinese FDI in non-extractive sectors has become a chance for economic diversification on the African continent. China's aid and FDI can contribute significantly to the development of local infrastructure and technology upgrading.

However, China's economic presence on the continent has also its negative side. For instance, African countries may suffer from trade related losses, unfair competition or further debt accumulation. In order to minimize possible risks and maximize potential returns from closer economic relations with China, African governments should undertake some policy measures (Renard 2011). Firstly, oil-rich countries should introduce prudent fiscal rules for the treatment of oil revenues which in a large proportion should be used to finance economic and social development projects. Secondly, increased revenues resulting from Chinese demand should be used to stabilize expenditures over the commodity price cycle. Accordingly, governments ought to absorb resources when commodity prices rise and spend resources when prices fall. Thirdly, independently from their partners, African countries should seek ways to increase the value added of their production and exports. It could be done, for example, through expanding local content requirements for foreign investors in relation to local labour or construction material. Fourthly, African countries could benefit from introducing common rules governing China's FDI. Closer collaboration among African countries in this field would be useful in stipulating minimum levels of local employment in the Chinese firms.

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