The Importance of Sino-African Trade

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PATRICK CORCORAN, JUN 16 2011

The Chinese Communist Party has maintained political office and subsequent control in China since 1949, although, in my judgment, in two separate and distinct forms: the first, Mao Zedong's failed attempt to, what the West would consider successful, operationalize what is referred to as Maoism (a form of Marxism) in a way that was beneficial to China and its people. The second form came into being after Mao's death in 1976; Deng Xiaoping's modernization of China's out-dated and abused leftish economic policies. Xiaoping, it could be argued saved the Chinese economy and with that the society – nevertheless, this process of economic realignment was not spearheaded by nongovernment organizations or localities, rather the opposite – a centralized power structure, and in China's case, the Chinese Communist Party, put more simply, the state – "the executive committee of the bourgeoisie." The state, that Mao used to murder so many of his people and destroy the potentiality for economic growth for nearly thirty years, was now (and continues today) be the largest force for economic growth and trade relations for China around the world. The source of power did not change, but the leadership and strategic thinking most certainly did; this we see as a form of statist-capitalism. Aside from the party's role in economic transformation, in any authoritarian regime, there is dissent.

Generally speaking, the ways in which protest or in some cases revolution (18th century France and 20th century Russia are good examples, not 18th century United States or 21st century Egypt) occurs, is because the state is not meeting the basic functions (depending on how one's society defines state functionality, these could differ, but let us assume the very basic functions) demanded by the people and in some cases working against the interests of the people within it – causing massive protest and eventual overthrow or drastic realignment of leadership personnel. Yang Yao, Deputy Dean of the National School of Development and the Director of the China Center for Economic Research at Peking University added, "The Chinese government generally tries to manage such popular discontent by providing various 'pain relievers,' including programs that quickly address early signs of unrest in the population, such as reemployment centers for unemployed workers, migration programs aimed at lowering regional disparities, and the recent 'new countryside movement' to improve infrastructure, health care, and education in rural areas."[1] Generally speaking, China does not suffer from overwhelming majority-like protest which has the government in fears of losing total control (Hu Jintao is not going to flee to North Korea the way Ben Ali fled to Saudi Arabia), but has obviously had incidents in the past, e.g. Tiananmen Square, youth protest in Mongolia, etc.

The state realizes this and because of China's history of dissent they have adjusted their tactics for dealing with such incidents accordingly, "Since the Tiananmen crackdown, the Chinese government has greatly refined its repressive capabilities. Responding to tens of thousands of riots each year has made Chinese law enforcement the most experienced in the world at crowd control and dispersion."[2] Despite this, the CCP maintains control and an appeal to their economic success could realign some of their opposition. The state's role in repressing domestic affairs remains, but the success of capitalism can be directly traced, however paradoxically it may seem, to the state taking the lead role in economic reforms. In fact, the state *expanded* its role after Mao's death, and as Minix Pei's article in *Foreign Affairs* indicates, "For two decades, the party has compiled an impressive list of achievements: at home it has kept the economy growing at a gravity-defying double-digit rate, while abroad it has pursued a pragmatic foreign policy, avoiding confrontation with the United States and methodically gaining prestige and influence."[3] Professor David Shambaugh speaking at the Woodrow Wilson Center added to the discussion of party strategy,

The Chinese Communist Party, although a decaying institution for many decades, has managed to muddle through over the years, even though about two thirds of the factors that contributed to the collapse of communism in Soviet Union and East Europe are also present in China.

In addition to maintaining economic growth, Beijing's strategy to forestall potential opposition includes recruiting social elites into the Party, preventing the rise of civil society, keeping control of military and paramilitary forces, and developing intra-party democracy.[4]

The question I seek to answer is: How does the CCP maintain its grip on power and where does such legitimacy arrive from? My hypothesis is economic growth – China differs from other authoritarian regimes because it can account, and in fact take credit for the state's economic solvency – in most authoritarian regimes, while there is some short-term immediate growth, in all almost every case the economic system is beholden to corruption and plunder. As Carnegie Endowment's Minix Pei argued,

So far, the real glue that has held the CCP together is a vast patronage system that has been underwritten by a long period of economic growth. The regime has used its financial resources to balance domestic interests, satisfy different constituencies, and purchase the contingent support of China's social elites.

But this patronage system is extremely expensive — administrative expenses alone consume more than 20 percent of China's government budget, and over 40 percent of China's GDP comes from fixed-asset investments such as factories and warehouses — a sector that is state-dominated and stuffed with pork.

In other words, China's nonideological ruling elites have stuck with the party because it has been paying them off. But when economic hardship ends the easy handouts, the elites' support and loyalty to the system can no longer be taken for granted.[5]

However, the crucial ingredient in growth is China's access to oil, and it is an essential element, if not *the* essential element, which inhibits China to maintain its economic expansion (and military capabilities which can be used to also ensure continual growth).

There are several areas within "economic growth" that could be explored, for instance, U.S – China trade relations (in the contexts of export/import or debt holdings), regional Chinese relationships (Shanghai Cooperation Organization or observer status in the non-alignment movement), and the subject of this paper, Chinese investment or foreign direct investment (FDI) into Africa, put more plainly, access to oil.

Sir Francis Galton, a British Anthropologist among other titles, wrote an article in 1875 titled, "Africa for the Chinese."[6] Essentially, Galton's argument was formulated on his assumption of a growing population in China that in the future, would need to expand to other markets other than its own. He wrote, "The pressure of population in China is enormous, and its outflow is great and increasing. There is no lack of material for a suitable immigration into Africa. I do not say that it would be possible at any moment to persuade communities of men and women from Southern China to establish themselves in Africa."[7] Galton knew, or at least he thought he did, that China was going to expand, and perhaps supplant the British Empire in the future. This may not entirely be the case today, but there are certainly indicators in that direction. In 2006, the first official meeting took place between China and the African states that were already involved with China or seeking to get gain investment opportunities, "which was attended by 50 African heads of state, where promises of generous financial, commercial, and military assistance were made, and about $1 billion in African debts were cancelled."[8] The Chinese have moved into the continent (and increasingly in Latin America), largely undetected to the majority of the West. In almost every country in Africa, there is a natural resource that is of interest to China, and in most cases a very willing government to contract the resources out to Chinese firms, in return for Chinese reinvestment in the country in various infrastructure projects. The claim does not just hold true for oil, but for various minerals and extracts, "There is copper to mine in Zambia, iron ore to extract in Gabon and [in addition] oil to refine in Angola."[9]

Bloomberg indicates, "China's investment into Africa may rise by 70 percent to $50 billion by 2015 from 2009, as the Asian nation seeks to acquire resources, Standard Bank Group Ltd. said. Bilateral trade between China and Africa will reach $300 billion by 2015, double the 2010 level, Africa's largest lender said today in a report."[10] This point was compounded by Martyn Davies, Director of the China-Africa Network said, "Statistics are hard to come by, but China is probably the biggest single investor in Africa. They are the biggest builders of infrastructure. They are the biggest lenders to Africa, and China-Africa trade has just pushed past $100 billion annually."[11] Although Chinese investment began prior to the meeting, the model for investment was something learned at home, *Pei* indicates,

The first prong of Beijing's efforts is to offer African states resource-backed development loans, an initiative inspired by its experience at home. In the late 1970s, eager for modern technology and infrastructure but with almost no foreign exchange, China leveraged its natural resources — ample supplies of oil, coal, and other minerals — to attract a market-rate $10 billion loan from Japan.

China was to get new infrastructure and technology from Japan and repay it with shipments of oil and coal. In 1980, Japan began to finance six major railway, port, and hydropower projects, the first of many projects that used Japanese firms to help build China's transport corridors, coal mines, and power grids.[12]

This process is similar to the kinds of deals that are brokered in Africa. For instance, in Angola and the Republic of Congo the Chinese have invested in, and in fact constructed various infrastructure projects in return for oil. The same is true for Ghana, except they will repay China in cocoa beans.[13] China's investment from 1996 (import and export) with Africa to 2006, Chinese investment can be traced back to the 1960s and 1970s, when the Chinese government began investing in post-colonial states, the two most striking examples are Tanzania and Zambia. In Tanzania, "The railroad — known as the Tazara line — was built by China in the early 1970s, at a cost of nearly $500 million ... At the time of its construction, it was the third-largest infrastructure project ever undertaken in Africa, after the Aswan Dam in Egypt and the Volta Dam in Ghana."[14] Since the 1970s the railway physically as deteriorated, combined with a lack of actual trains and abilities to maintain the system, it has all but collapsed. However, the Chinese and Tanzanian governments have agreed on reinvestment paid for by oil; the Chinese are seeking to finish what they began in the 1970s. In addition to Tanzania: Algeria, Sudan, Angola, and Nigeria have all been recipients of oil-based deals. What is so attractive about these deals versus deals that they would normally get from the West or international institutions? According to a report from the Council on Foreign Relations, "China offers African nations a financing alternative to Western donors, the International Monetary Fund, and the World Bank, providing choices these countries might not otherwise have."[15] The African states, particularly ones that do not have a thorough democratic or legalistic review process for international contracts, choosing a "no strings attached" contracts appear to be the order of the day.

The connections are not totally direct, nor can they be drawn out linearly, but I think a strong case can be made for the importance of the connection between social stability and economic growth, which is fueled in large part by oil, and other commodities that China obtains in abroad, in this case, Africa. A report by Dr. Phil Saunders at the National Defense University argued, "Chinese leaders have emphasized the importance of rapid growth as a strategy for regime survival, with the goal of rebuilding legitimacy by demonstrating the party's ability to build an advanced economy and to raise living standards. Leaders have also sought to build and appeal to Chinese nationalism."[16] Their economy, along with all of the industrialized states, is tied to oil. If oil is not accessible at rates that can maintain growth, and China's foreign reserves will only last them approximately 25 days, then what happens to the social stability when the pipeline runs dry?

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[1] Yang Yao, "The End of the Beijing Consensus: Can China's Model of Authoritarian Growth Survive?"*Foreign Affairs,* February 10, 2010.

[2] Minix Pei, "Will the Chinese Communist Party Survive the Crisis? How Beijing's Shrinking Economy May End A One Party World,*"* Foreign Affairs, March 12, 2009

[3] *Ibid.*

[4] ——-, “The Chinese Communist Party – The End of the Line?” Woodrow*Wilson International Center for Scholars Event*, speakers included: David Shambaugh of The George Washington University, Bruce Dickson of the same university, and Cheng Li of Hamilton College. Both Shambaugh and Cheng Li are currently fellows at the Wilson Center.

[5] Minix Pei, “Will the Chinese Communist Party Survive the Crisis?” *The Carnegie Endowment for International Peace*, March 12, 2009

[6] The entire article can be found here: http://galton.org/letters/africa-for-chinese/AfricaForTheChinese.htm

[7] *Ibid.*

[8] Konye Obijiori, “Africa: Is China the New African Savior?” *The Afrik*, July 25, 2009.

[9] —–, “History of China in Africa,” *BBC.*

[10] Xiao Yu, “China’s Investment in Africa to Increase to $50 Billion by 2015, Bank Says,” *Bloomberg*, February 22, 2011.

[11] French, *ibid*.

[12] Deborah Brautigam, “Africa’s Eastern Promise,” *Foreign Affairs*, January 5, 2010.

[13] *Ibid.*

[14] Howard French, “The Next Empire,” *The Atlantic*, March 2010.

[15] Obijiori, *ibid*.

[16] Philip C. Saunders, “China’s Global Activism: Strategy, Drivers, and Tools,” *Institute for National Strategic Studies, National Defense University*, October 2006, vol. 4, page 6.