China’s ‚Marshall Plan‘ for Africa

Off the record

Today, the 2018 Beijing Summit of the Forum on China-Africa Cooperation closed. The forum is held every three years and is attended by every African country except eSwatini. In his opening statement President Xi Jinping confirmed his support for bringing the Road and Belt Initiative to Africa and support the construction of crucial infrastructure projects in the region.

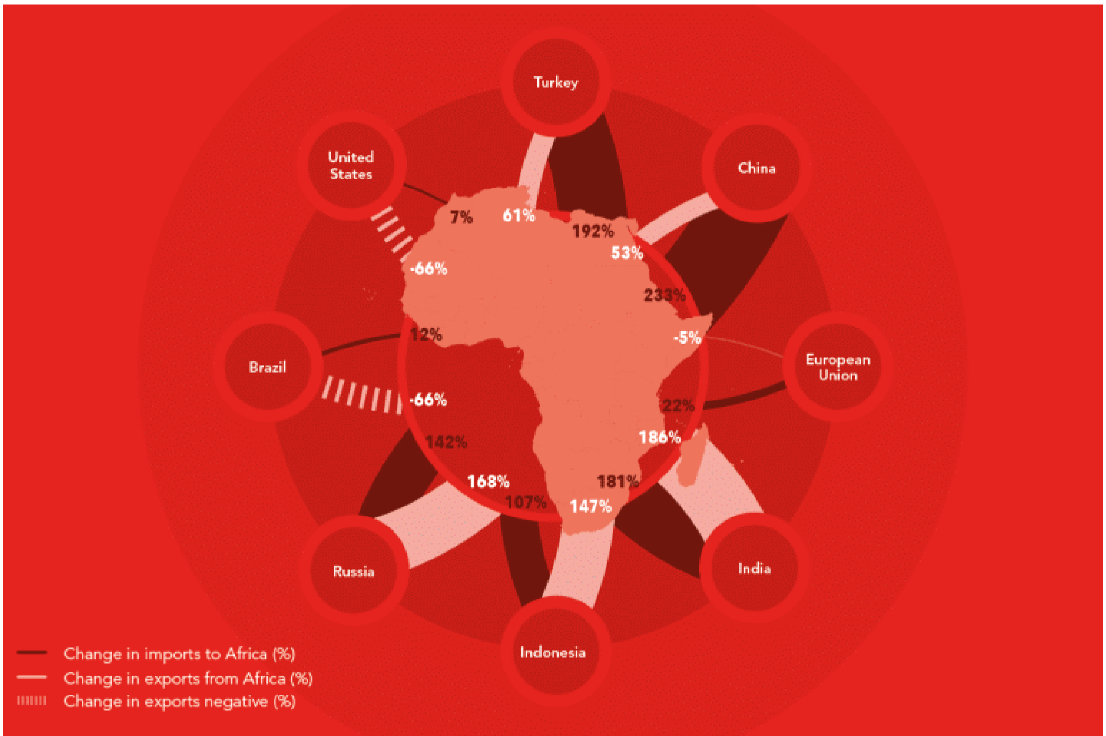
Since 2000, China has systematically increased its economic ties with Africa. The trade volume between China and Africa has grown 17-fold from $10bn in 2000 to $170bn in 2017. Exports from Africa to China have increased 53% between 2006 and 2016, while exports to the European Union have declined by 5% and to the US by 66%. Today, China is on the verge of surpassing the US as the continent’s second most important export market. And China’s engagement with Africa goes well beyond commodity markets. China is involved in more than 2,500 development, public infrastructure and construction projects in practically every country of the continent – independent of the country being a commodity exporter or not.

China has understood what so many Western countries seem to have forgotten: if you invest in a foreign country, you will create consumers for your own exports and political allies. In this sense the Belt and Road Initiative of China acts like a modern Marshall Plan for Africa. Until the last Summit three years ago, China had lent African countries an estimated $86bn. Since then an estimated $55bn in loans and $5bn in grants have been added. In his opening speech, President Xi promised another $60bn for the coming three years, but this time $15bn in interest-free loans and $15bn in special funds to foster African exports and African development. In April we wrote about the rising indebtedness of African countries, some of which have Debt/GDP-ratios in excess of 50%. The US State Department estimates that China owns about 50% to 80% of the outstanding debt of African countries.

If heavy indebtedness of African countries seems like a risk for Chinese loans, I would not be so sure. When Sri Lanka wanted to build a new port in 2010, everybody thought the port would not be economically viable due to its location in an underdeveloped part of the country and its proximity to the country’s largest existing harbour. China, on the other hand, gladly extended $1.5bn in loans to build the new port. As a consequence, Sri Lanka’s debt spiked and in 2017 Sri Lanka could not sustain the debt payments. In response, China has now taken possession of the newly built port in Sri Lanka and gained an important geostrategic base as well as a key bridgehead in the Indian Ocean for its Road and Belt Initiative, right next to China’s local rival India. Should the existing debt for African countries become too costly, we should expect similar developments there.

But China’s engagement in Africa is not just economic in nature. In 2017 China’s first overseas naval base opened in Djibouti in close proximity to an existing US naval base and since 2003 soldiers of the People’ Liberation Army have been the largest contingency of all non-African nations in UN peacekeeping mission in Africa. Again, the parallels to the US efforts in Europe and Asia after the Second World War are striking and indicate that China is acting with strategic intent.

Trade with Africa



Countries	Change in imports (2006-2016)	Total value of imports (in millions of USD)	Share of total imports (%)	Change in exports (2006-2016)	Total value of exports (in millions of USD)	Share of total exports (%)
Brazil	12%	51,849	1.5	-66%	95,516	2.7
India	181%	156,632	4.6	186%	310,787	8.7
Indonesia	107%	30,825	0.9	147%	32,847	0.9
Russia	142%	19,675	0.6	168%	5,241	0.1
Turkey	192%	26,139	0.8	61%	10,023	0.3
China	233%	435,737	12.7	53%	459,206	12.9
European Union	22%	874,981	25.5	-5%	827,417	23.2
United States	7%	219,091	6.4	-66%	482,189	13.5
World	56%	3,432,539	100	18%	3,573,221	100

Source: IMF, Direction of Trade Statistics, 2017.

Source: IMF, Brookings Institution

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