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A Consideration on China's Investment in Africa

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Africa has drawn much attention as the "Last Frontier", or the last big market left on the earth. It is China which has most aggressively invested in this area since the start of the 21st century, but its heavy-handed approach is reported to have caused various frictions not only with the western nations but also with the targeted African countries themselves.

In this study, the author will analyze the outline of the Chinese investment activities in Africa while introducing research papers and survey results on China's purposes of investment by some research institutions and experts, and will deliberate on the possible Japanese strategy on the investment in Africa.

1. High Potential of the African Economy

In the latest World Economic Outlook issued on January 21 2019[1], the International Monetary Fund (IMF) projected the growth of the world economy at 3.5% year on year, the lowest in three years (revised downward by 0.2% point from its forecast issued in October 2018) mainly reflecting sluggish demand in Europe and weakening financial market sentiment. In addition, the Fund warned that the global economy would further deteriorate if such risks to global growth as escalating trade tensions, a "no-deal" withdrawal of the United Kingdom from the European Union, and a greater-than-envisaged slowdown in China should increase.

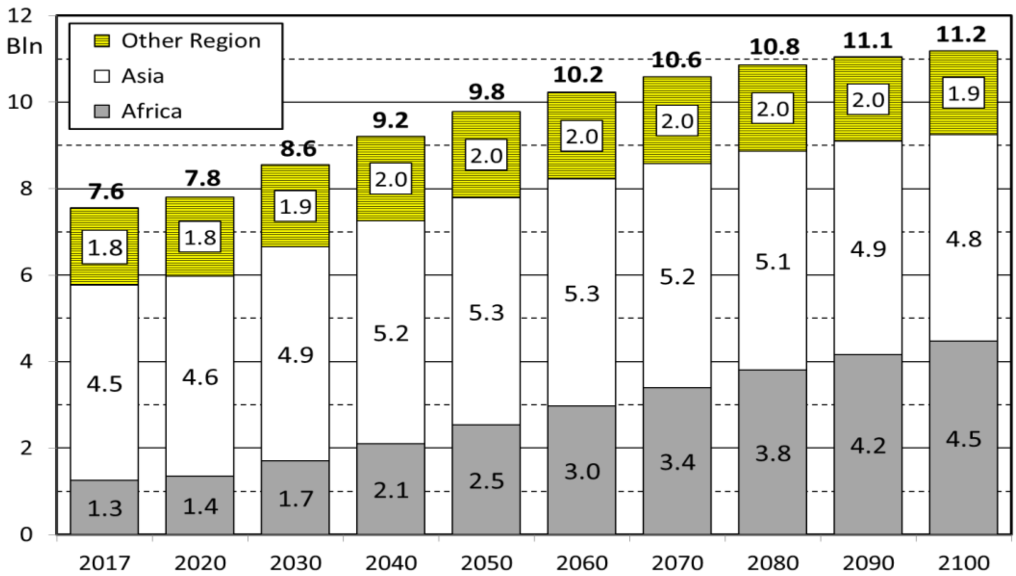
[1] IMF "World Economic Outlook Update, January 2019 (A Weakening Global Expansion)"

In the meanwhile, Africa's growth rate of real GDP in the past 10 years averaged 5.4%, maintaining relatively higher growth than the global average. Especially the growth of Sub-Saharan Africa (African countries to the south of the Sahara Desert) is projected to accelerate from 2.9% in 2018 to 3.5% in 2019 and 3.6% in 2020. More than 30% countries in the region are projected to achieve higher than 5% growth in 2019-2020.

One of the factors supporting this high growth is an increase of population in Africa. According to the "*World Population Prospects: The 2017 Revision*" [2] published by the United Nations in June 2017, the present population of Africa is about 1.3 billion (about 17% of the world total). And, the population in 26 African countries is projected to expand to double the current size between 2017 and 2050 reflecting improvement of medical level, sanitary nutrition conditions. The world population is expected to reach 11.2 billion in 2100, of which the population of African Continent will account for 4.5 billion, or about 40% of the world total, increasing more rapidly than the current most populous Asia.

In addition, the share of working-age population (15 years - below 65 years) which is expected to decline in other regions is projected to continue to grow in Africa and reach 62% by 2050. The population bonus under which the growth of working-age population exceeds that of total population is expected to continue until the end of the 21st century in African countries, which will constitute a foundation to support their industrial base[3].

Figure 1 : Prospects of the World Population

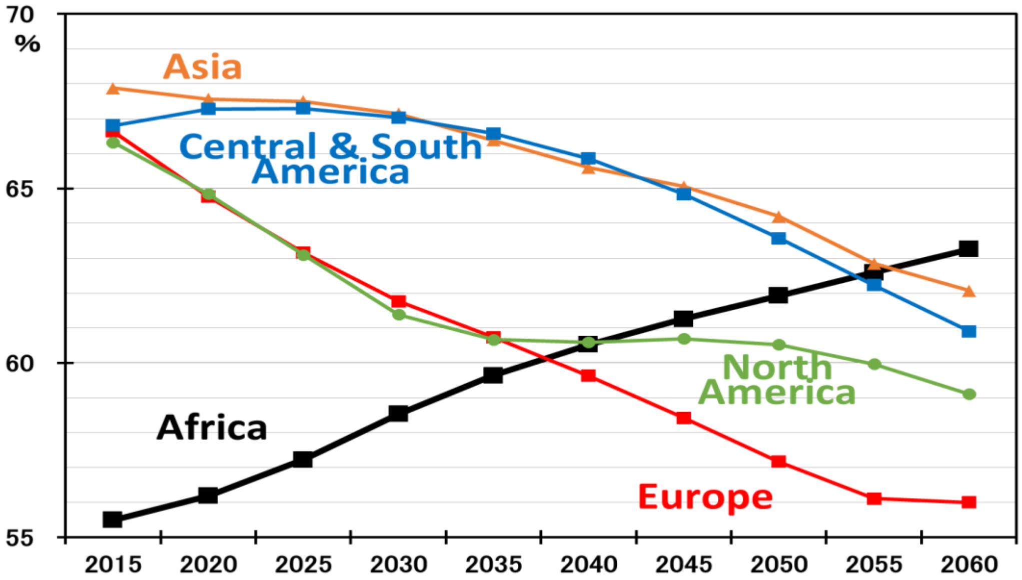


(Source: United Nations)

[2] "World Population Prospects :The 2017 Revision" (United Nations) https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_KeyFindings.pdf

[3] Ministry of Economy, Trade and Industry: *White Paper on International Economy and Trade 2018* (Part 1, Chapter 2, Section 6, Middle East and Africa)

Figure 2 : Estimate of Working-Age Population by Region



(Source: United Nations (Mean Estimates))

Rich endowment of natural resources in the African continent is also expected to underpin its future economic growth. The resources include such rare metals as chrome, cobalt, manganese, platinum and bauxite for which Africa has the large reserves in the world. In addition, the coastal region of the Mediterranean and the Gulf of Guinea has large reserves of energy resources like oil and natural gas.

Figure 3 : Endowments of Resources in Africa

(Source: http://mapofafricanew.blogspot.com/)

Table 1：Major Natural Resources Africa Accounts for Higher Reserves in the World

Name of the Resources		Use	Reserves (ton)	Of those in Africa (ton)	Occupancy of Africa
Base Metal	Bauxite (Aluminum,Al)	・Fittings (window sash, door etc) ・Body of car and rail car	30,000,000	Guinia 7,400,000 (1st)	24.7%
Rare Metal	Chromium (Cr)	·Improved wear resistance and corrosion resistance of stainless steel etc.	510,000	South Africa 200,000 (2nd)	39.2%
	Cobalt (Co)	·Lithium battery ·Permanent magnet ·Catalyst of petroleum synthesis	7,100,000	Rep. of the Congo 3,500,000 (1st) Zambia 270,000 (5th) Madagascar 150,000 (8th)	55.2%
	Manganese (Mg)	·Lithium battery ·Improving wear resistance and corrosion resistance of steel	680,000	South Africa 200,000 (1st) Gabon 20,000 (7th) Ghana 13,000 (8th)	34.3%
	Platinum (Pt)	・Exhaust gas purification system for automobiles ・Electronic parts	69,000,000	South Africa 63,000,000 (1st) Zimbabwe 1,200,000 (3rd)	93.0%

(Source : United States Geological Survey (USGS), Mineral Commodity Summaries 2018)

Against the backdrop of this population growth and rich endowment of natural resources, Africa has a great potential as the "next generation of world's factory" and a big consumption market that could take the place of China and India.

Furthermore, Africa is a large source of votes with 54 countries joining he United Nations, accounting for a bit less than 30% out of total 193 members, and it has an ever-increasing significance to strengthen its alliance with these African countries in terms of both economic and political relations.

２． China's Marked Engagement in Africa

Under such circumstances, China is making a significant inroad into Africa. For instance, both exports from China to Africa and from Africa to China have shown an increasing trend except in the aftermath of global financial crisis of 2009 and the period of declining resource prices from 2014 to 2016. China's trade with Africa exceeded Africa's trade with former colonial powers (the UK, France, Spain, etc.) by 2006 and surpassed the US trade with Africa[4] in 2013. By now, China has become the biggest single trading partner for Africa.

[4] Africa's exports to the US rapidly decreased after reaching a peak in 2011 mainly because the US domestic production of oil increased reflecting shale oil revolution, which helped to reduce the US oil imports from the African countries.

Figure 4 : Africa's Exports by Country

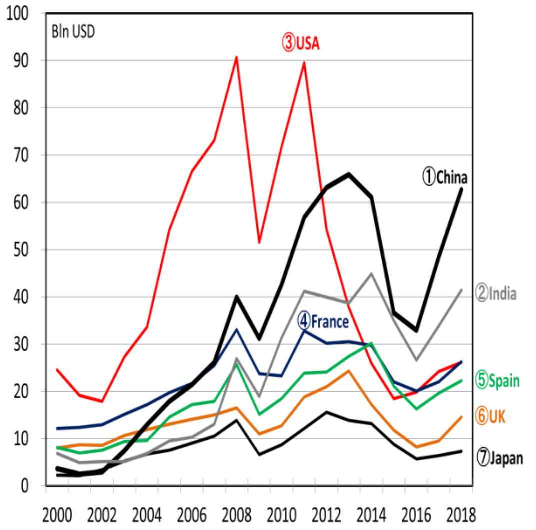
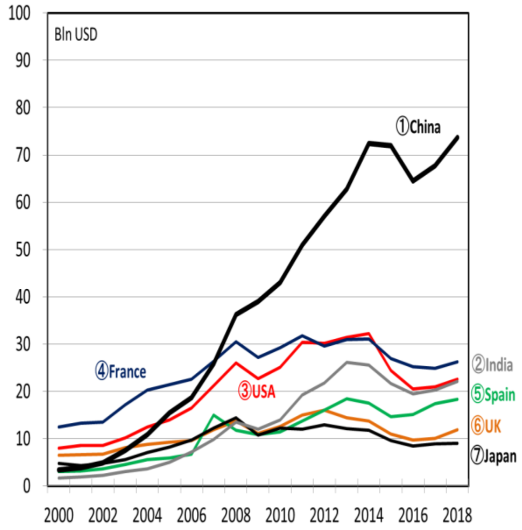


Figure 5 : Imports of Africa by Country



(Source : IMF, Direction of Trade Statistics)

The trade relations between Africa and China can be summarized as "Africa exports natural resources to China, while China exports machineries to Africa". As Figure 2 shows, Africa is a resource-rich land, from which China purchases various natural resources, especially with crude oil accounting for a high share.

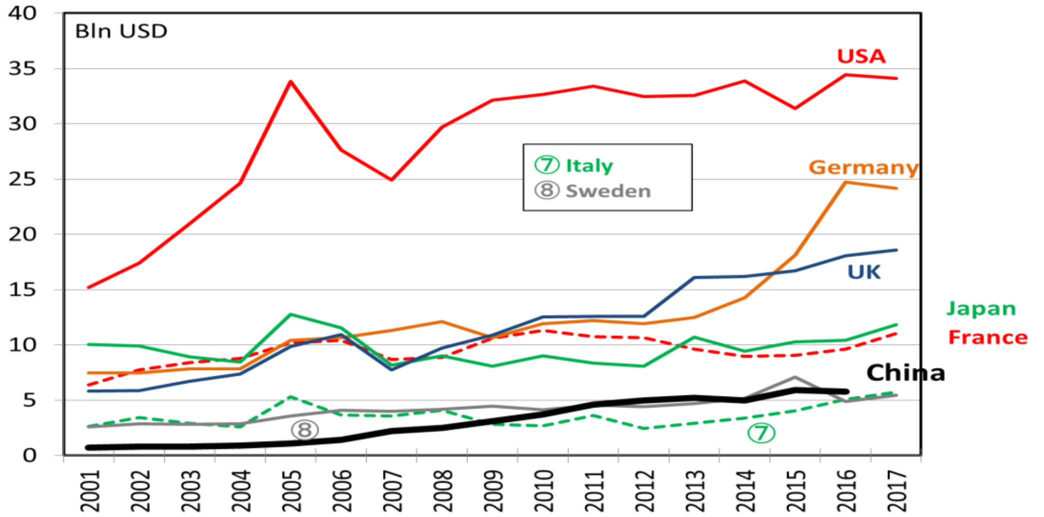
China, which became the biggest importer of oil in 2017 overtaking the United States, has also tried to diversify the suppliers of oil from the viewpoint of maintaining its energy security. In fact, Angola ranked the third after Saudi Arabia and Russia as a major import source of oil in 2017, followed by South Sudan, Algeria, Nigeria, Libya and Congo (by region, Middle East accounted for 47%, West Africa 18%, Russia 14%, and Central America 10% in 2017). Meanwhile, China has exported to Africa such labor-intensive products as electric products, machinery, cars and steel that are assembled using imported resources, thus a harmonious operation has been realized between resource-rich African countries and China as a country of processing trade.

In order to increase imports of natural resources, it is indispensable for China to improve infrastructures for access to ports and harbors from the mining sites of natural resources. So, China has been promoting at a rapid pace construction and improvement of infrastructures like roads, railways and pipelines since 2000.

Then, how much has China provided economic assistance and development investment in Africa? As China is not a member of the Development Assistance Committee (DAC) of the OECD, no elaborate data are available on the Chinese performance of ODA, nor integrated detailed data are published on the external investment by the government and private corporations. Therefore, following is a conjecture made by using the figures compiled and published by international organizations and other private research institutions.

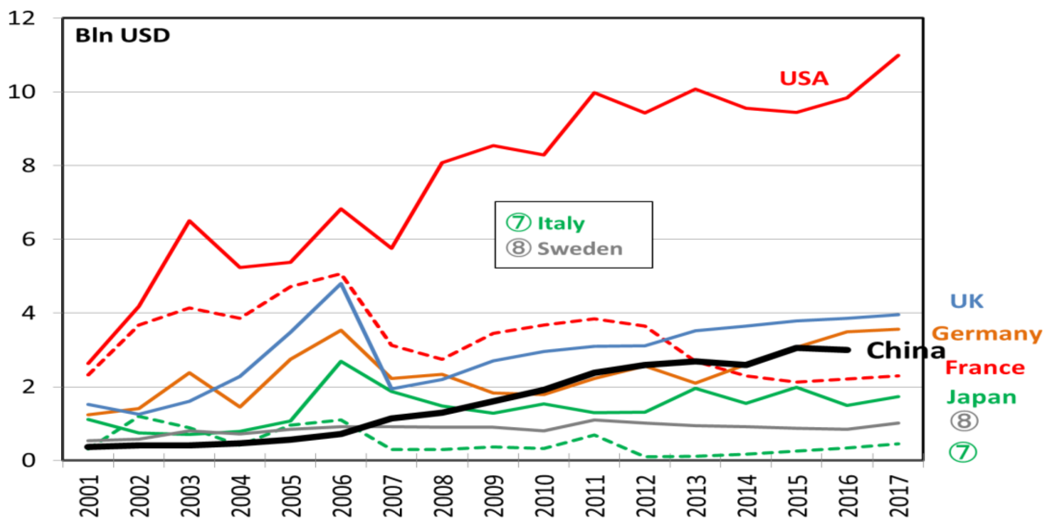
Mr. Naohiro Kitano of the JICA Research Institute regularly calculates China's external assistance on the OECD-DAC standard. According to a research made in May 2018, its external assistance (on net base) was estimated to have reached $5.8 billion in 2016. This falls on corresponds to the sixth largest among the OCED-DAC members. Although the assistance to Africa is unknown, we can get the amount of $3 billion for 2016, ranking the fourth, if we compute it from the estimated figures for 2001 to 2016 by using the share of Africa (51.8%) in China's commitment by region which was announced in the "2014 White Paper on Foreign Assistance" published in July 2014 by the press office of China's State Council.

Figure 6：ODA Disbursement (net) of Major DAC Members（Estimate for China）



（Source：OECD, JICA Research Institute (Mr. Naohiro Kitano)）

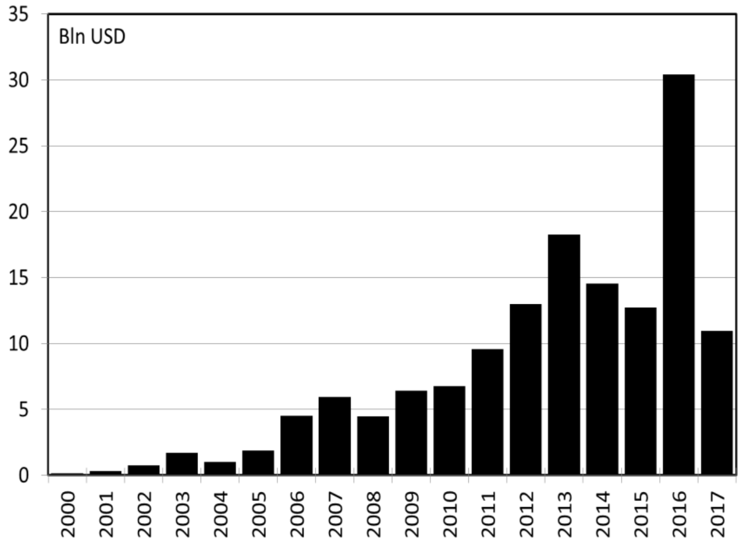
Figure 7：Net ODA to Africa（Estimate for China）



(Source：JICA Research Institute (Mr. Naohiro Kitano))

Next, the data[5] by the China Africa Research Initiative (sais-cari) of the US Johns Hopkins University shows that China extended large amounts of loans[6] exceeding $140 billion to the governments of African countries during 2000 to 2017. Of these loans, two thirds were intermediated by the Chinese Export Bank and were structured so that the Chinese development aids could generally facilitate Chinese companies to win their business. In addition, the data reveals that three industrial sectors of Transport (32%), Power (24%), and Mining (10%) account for two thirds of the total loans, showing that, as had often been pointed out, more of the loans had been made to the infrastructure related sectors where China can put in its resources as well as Chinese workers intensively to secure its vested interests.

Figure 8: China's Loans to African Governments



	Countries (Top 10)	Loan Amount (Bln USD)	Portion
1	Angola	42.8	29.9%
2	Ethiopia	13.7	9.6%
3	Kenya	9.8	6.8%
4	Rep. of Congo	7.4	5.2%
5	Sudan	6.5	4.5%
6	Zambia	6.4	4.4%
7	Cameroon	5.6	3.9%
8	Nigeria	4.8	3.4%
9	South Africa	3.8	2.6%
10	Ghana	3.5	2.4%
		Portion	72.8%

（出典：sais-cari）

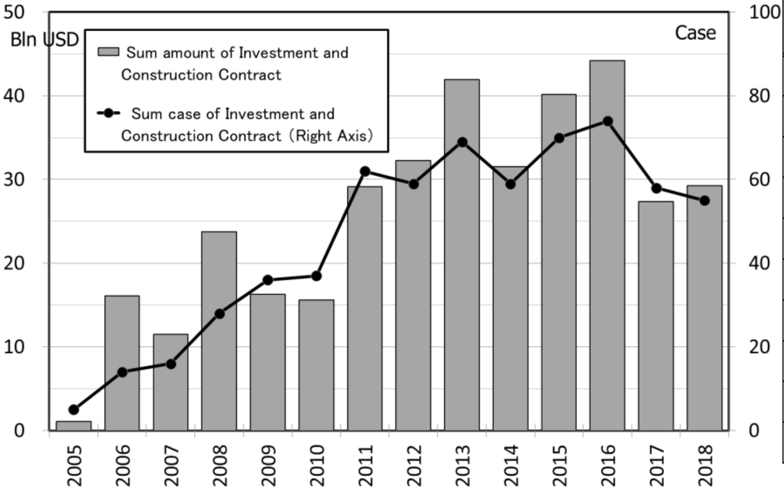
The American Enterprise Institute (AEI), one of the think-tanks associated with the US Republican Party, also conducts its own research on China's external investment and construction contracts[7], and reports that the amounts of China's investment in and construction contracts with Africa were on a rise since 2005 to reach $360 billion in total.

[5] China Africa Research Initiative "Data: Chinese Loans and Aid to Africa" https://www.sais-cari.org/data-chinese-loans-and-aid-to-africa

[6] Loan includes (i) Commercial Loan, (ii) Zero-interest Loan of China's Ministry of Commerce, (iii) Concessional Loan in Yuan extended by the Export and Import Bank of China, (iv) Export Buyers' Credit to African Importers, (v) Preferential Export Buyers' Credit by the Chinese EXIM, (vi) Suppliers' Credit, and (vii) Master Facility Loan.

[7] AEI : "China Global Investment Tracker", http://www.aei.org/china-global-investment-tracker/ 。

Figure 9：Chinese Companies' Investment and Construction Contracts in Africa (2005～2018)



	Countries (Top 10)	Amount (Bln USD)	Portion
1	Nigeria	50.0	13.9%
2	Egypt	24.4	6.8%
3	Angola	24.1	6.7%
4	Ethiopia	23.9	6.6%
5	Algeria	23.0	6.4%
6	Kenya	16.8	4.7%
7	Zambia	16.6	4.6%
8	South Africa	14.2	3.9%
9	D. R. of Congo	14.0	3.9%
10	Cameroon	13.3	3.7%
		Portion	61.1%

（Source：AEI "China Global Investment Tracker"）

Finally, the "World Investment Report" issued every June by the United Nations Conference on Trade and Development (UNTAD) lists major direct investors and amounts (on stock basis) for each region. Extracted amounts from each report indicates that although the US, UK and France have kept since 2010 the position of top three countries as the largest investors in Africa, China has shown a remarkable rate of increase. Incidentally, the Japanese investment in Africa remains at $10.2 billion. (As of March 2016, by JETRO)

Table 2：Direct Investment in Africa by Major Countries (Outstanding) (2010-2016)

（Bln USD）

	2010	2014	2015	2016	(Yr2016/Yr2010)
USA	55	64	64	57	(+4%)
UK	47	66	58	55	(+17%)
France	52	52	54	49	(-6%)
China	13	32	35	40	(+208%)
Italy	10	19	22	23	(+130%)
Singapore	20	17	16	17	(-15%)
India	12	15	17	14	(+17%)
Switzerland	12	n/a	14	13	(+8%)

（Source：UNCTAD "World Investment Report (2016－2018)"）

These reports and data seem to suggest that China is investing in Africa to increase its imports of natural resources from Africa, thus accelerating its cycle that enables China to import resources further.

３． History of China’s Engagement in Africa

However, it is not just a recent past that China started to build good business relationship with Africa. The beginning of China’s development cooperation with Africa dated back to 1950, the following year of China’s foundation of a nation. China was one of the leading members of the 1955 Bandung Conference and prompted confrontation with the Western nations (former colonial powers) while promoting alliance with the Non-Aligned Movement and national liberation movement. It is said that China’s such aggressive activities also reflected an intention to get recognition from international society to replace Taiwan, by strengthening relationships with developing nations that were to become a majority force in the United Nations afterward.

And many African countries which attained independence one after another around 1960 were China’s important partners for alliance, and delegations led by Prime Minister Zhou Enlai often made visit to African countries from 1963 to 1964 trying to deepen their relationship.

Such efforts began to bear fruit toward the end of 20th century to further strengthen their ties between China and Arica. When China entered high-growth period, it began to face with a problem that it could not fully digest at home the domestic saving and foreign exchange income that continued to increase due to population bonus and increased exports. As one of the solutions, China developed “Go Global” strategy in 1999 and promoted policies to externally secure the destination of exports of manufacturing with weak competitiveness, destination of stable purchase (import) of resources and primary commodities, destination of investment and repatriation of surplus saving and foreign exchanges, and destination of transfer of some people (emigrants and migrating workers). It was Africa that drew much attention of China as important destination for the above purposes and the Forum on China–Africa Cooperation (FOCAC) was established in 2000 to promote the relations at state level.

The purpose of its launch was to discuss multidimensional issues that lied between Chan and Africa, including trade, diplomacy, security (including military) and investment, to build win-win relationship politically and economically between the two regions. Since then, the forum was held in every three years (the seventh meeting was held in September 2018 in Beijing), contributing to strengthening of friendly and cooperative relations between China and African countries). (See Annex 1 for the transition of FOCAC.)

４． Adverse Effects of China’s Investment

In the meanwhile, there are growing concerns on the debt levels of African countries. Especially, China, which has been increasing its investment and loans in African countries as was seen above, has received stern glances from international community.

China had been viewed since the 1990s as a threat as an emerging donor, but more recently, it has gotten significant criticisms from the US. In his speech given in December 2018, Mr.

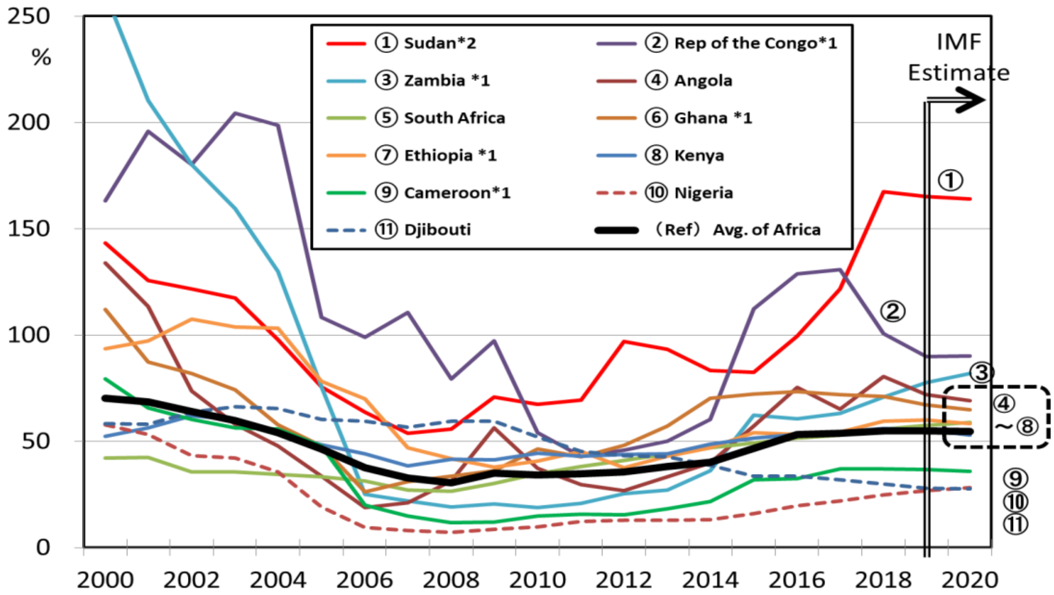
Bolton (U.S. National Security Advisor) criticized China for its "Debt-Trap Diplomacy", saying that China is "using its investment and trade to gain direct leverage on African governments, often through corrupt means". (For main criticisms/concerns and oppositions/advocate, see Annex 2 below)

Figures 10 and 11 show the development of general government gross debts (% of GDP) and gross external debts of the top 10 African countries listed in China's loan extension to African countries and Djibouti. They show that debts are on a rising trend in most countries after touching bottom in 2008-2010, or before and after the global financial crisis. It coincides with the period when China accelerated its financial penetration into Africa, as is seen in Figures 8-9 and Table 2.

According to a regional report on Sub-Sahara the IMF published in October 2018, the gross debt of general governments in the region is estimated at 48.5%, significantly rising from 31% in 2010-2015 and exceeding 40% or the maximum ceiling level recommended for low income countries. The IMF also projected that in the 13 countries including Angola, Mozambique, and Zambia out of 45 countries surveyed the ratio would exceed 60%.

Also the Overseas Development Institute, a think-tank in the UK, has raised an alarm, saying that about 40% of the Sub-Saharan countries face a risk to fall into debt crisis. [8]

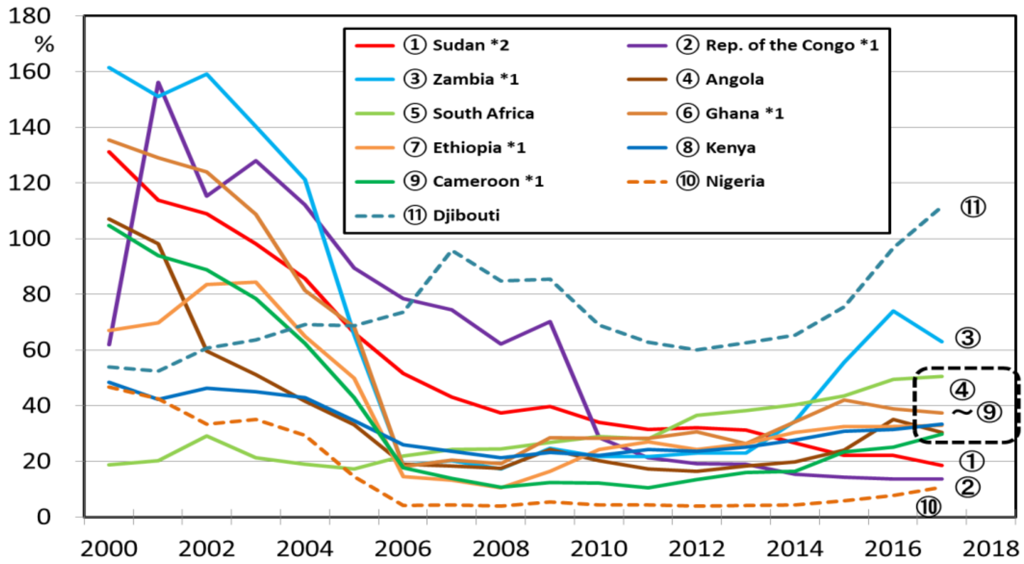
Figure 10：Gross Debt of General Governments (% of GDP)
（China's top ten African borrowers plus Djibouti）



（Source：IMF "WORLD ECONOMIC OUTLOOK (2018.10)"）
*1 indicates countries that met HPIC completion point
*2 indicates counties that have not met HPIC decision point

[8] ODI "Africa's rising debt : how to avoid a new crisis (November 2018)"

Figure 11：Gross External Debt (% of GDP) of African Countries
（China's top ten African borrowers plus Djibouti）



（Source：World Bank WDI）
*1 indicates countries that met HPIC completion point
*2 indicates counties that have not met HPIC decision point

5. Analysis of China's Engagement in Africa

Then, does this Chinese engagement in Africa aim at "gaining economic hegemony accompanied by political deliberation"? Or, is this an action purely based on economic principle? In this chapter, I will introduce four analyses and researches released since 2017.

(1) In July 2017, McKinsey & Company, a large US consulting firm, released a research report on eight major African countries (with their aggregated GDP accounting for two thirds in countries in the Sub-Saharan region). It had interviews with "104 African political leaders and business executives", "owners and managers of 1,073 Chinese firms and factories that invested in the region", and "30 Chinese political leaders and international experts" and found benefits and issues of Chinese engagement in Africa as listed below. It forecasted that China-Africa cooperative relationship will be further strengthened in the future with the Chinese firms operating in Africa (hereinafter referred to Chinese firms) increasing their revenues from Africa from $180 billion in 2017 to $250-$440 billion in 2025.

Contribution
①The number of Chinese companies that have made inroads into Africa (hereinafter referred to as "Chinese companies") is already estimated to be over 10,000. (Of these, about 90% are private enterprises and 1/3 of them are manufacturing enterprises.)
②Chinese companies already employ millions of Africans, and 64% of the companies provide employees with some skills training opportunities.
③In the past three years, 48% of Chinese companies have provided new products and services to the African market. Also, 36% of companies introduced new technologies. As a result, there were cases where Chinese companies reduced the prices of existing products and services by 40%.
④Chinese construction contractors are responsible for half of the international EPC (construction contractor) market in Africa. Responding to African government officials that the greatest value of China's cooperation partners is "low cost financing channels" and "significant infrastructure improvement". In addition, the main advantages of Chinese companies were "high cost structure" and "relatively quick delivery of the project".
Task
①Only 47% (in terms of value) of Chinese companies supply to local companies, and local companies have lost their profit opportunities for China's African investment accordingly.
②While 89% of all employees in Chinese companies are Africans, managerial positions have room for improvement (44%).
③There are cases of labor violations and environmental violations by Chinese companies.
④In order to further strengthen cooperation between China and Africa, it is necessary to lower "improvement of corruption occurring in some countries", "security of (Chinese) people", and "language and culture barrier".

(2) In January 2018, Mr. Li Shi, a student at the Economic and Finance Department of Xi'an Jiaotong University, made an experimental analysis, using method of quantitative analysis, on the ways the Chinese firms determine their external investment. He used external investment data (1,269 cases) of 201 Chinese firms for 2005-2015, focusing on the political and legal system in the 97 recipient countries of Chinese investment and found as follows.

① Chinese state-owned enterprises (SOEs) tend to make direct investment in the countries with relatively underdeveloped political and legal system.

② Important determining factors for external direct investment by Chinese firms are "the market size is large enough in the invested country", "the country is well endowed with natural resources", and "a country with low labor costs"

③ As a motivation for external direct investment by Chinese firms, important is a scale of engagement already established by the Chinese companies in the country of investment (size of economic zone/sphere)

(3) In March 2018, Prof. Yuan Zhijia, Faculty of Economics of Rissho University tried to analyze the "Chinese firms' motivation for making direct investment in Africa" based on three Chinese companies that actually invested and produced locally expanded their business in four business lines (with differing invested countries, business lines and investment scale, respectively). He analyzed the investment motivation by dividing the factors into 9 push factors (those that promote transfer or expansion of business to abroad due to domestic reasons) and 5 pull factors (where invested countries attract and take in foreign capital). As a result, he came to the following conclusions (although he execuses himself for the limited number of manufacturing firms analyzed.)

① Among the factors that drove Chinese firms to make direct investment in Africa, those for pursuing economic rationality far exceeded those politically driven. In other words, Chinese companies came to pursue more rational operational objectives, without resisting the waves of globalization.

② Under these circumstances, the motivations of the SOEs' direct investment in Africa include relatively more of the push factors. Especially, they are much affected by the "Go Abroad" policies that are backed by the government funds.

③ On the other hand, the motivations of the private firms are driven relatively more by the pull factors (such as preferential measures for investment in the recipient countries).

④ Some of the negative criticism of the business expansion of Chinese companies to Africa (such as arguments of "new colonial domination" or "monopolistic acquisition of natural resources" are not necessarily evidence-based. Even regarding the criticism of "exporting excessive production", Chinese companies are only following the fundamental reasons for which many companies in advanced countries (including Japan) launched strategy of multi-nationalization in the past, so the criticism is off the point.

(4) In November 2018, the sais-cari of Johns Hopkins University in the US reviewed the past researches and literatures on the Chinese investment in Africa, and pointed out the following deficiencies.

① The "determinant factors of development finance" stated in the past literatures are those that existed before the 1990s and the trend of its development finance can only be applicable to the time of the cold war and period of immediately after that.

② Majority of researches on development finance tend to put too much focus on the "degree of corruption in the invested country" and "degree of democratization".

③ Until recent years, the literatures on development finance did not take notice of "China as a donor" (one reason is that the precise data on the Chinese overseas investment were not available).

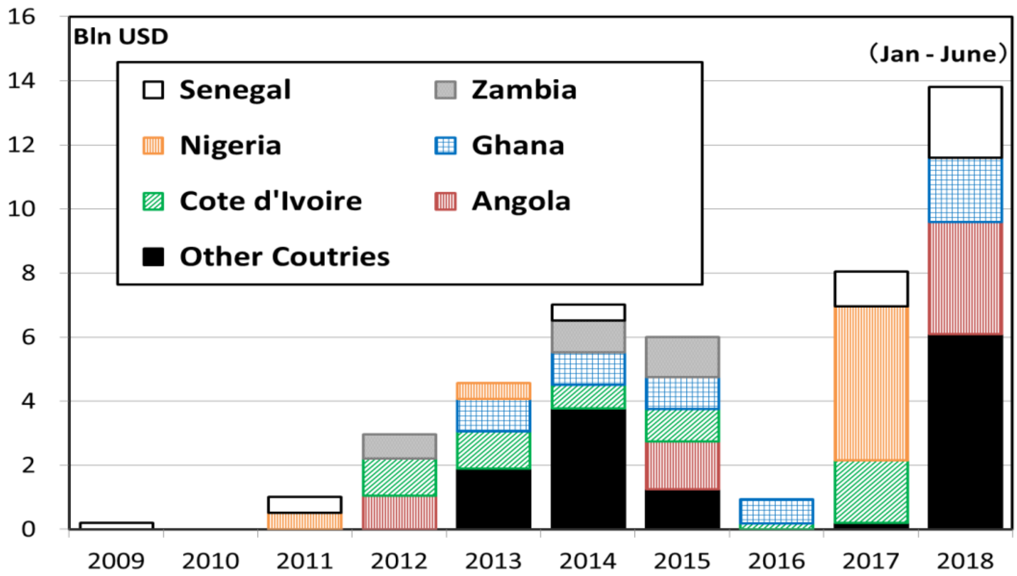
Then it made a regression analysis using 16 variables, and drew the following conclusions.

①	"Bilateral trade relations" and "UN voting alignment" have a vastly stronger impact on China's development finance than that of western countries (USA, UK, Germany, and France).
②	China allocates significantly more development finance than the west to richer African countries.
③	China appears to prioritize its commercial partners and the countries with which it is more politically aligned when allocating development finance in Africa.
④	Compared to China, the western countries send more development finance to countries that have tighter corruption controls and better human rights outcomes.
⑤	(Addition to ④) The models presented in this paper do not offer evidence to support the hypothesis that China allocates a disproportionate share of its development finance to countries ruled by kleptocrats and dictators.
⑥	The paper's findings suggest that China still has a gap to bridge in terms of how it allocates development finance, particularly in terms of prioritizing the needs of receiving countries rather than its own commercial and political interests.
⑦	(Addition to ⑥) Western countries also fail to allocate development finance on the basis of need.
⑧	The ways in which Chinese and western actors engage with other countries, and particularly in Africa, are widely perceived to be at odds.(This leads to reporting in the media, non-governmental organizations, and government agencies that lacks empirical grounding and often propagates exaggerations.)

As far as these results of analyses and studies show, it is not possible to explicitly conclude that the main purpose of Chinese investment in Africa lies in the "economic hegemony accompanied with political intention".

In fact, the concerned increase of debt of the African countries cannot be explained just by the Chinese investment and loans. According to Sub Saharan Africa Regional Economic Outlook of the IMF, issuance of bonds in international financial market by Sub-Saharan African countries amounted to $13.8 billion just in the first half of 2018, far exceeding $7.6 billion recorded in full 2017. (This trend of bond issuance can be also confirmed by the World Bank data released in January 2019.) Even Angola which sook the financial support from the IMF at the end of 2018 raised $3 billion in May and additional $500 million in July in the market, attracting the bids three times as much as the amount to be raised in the May issuance.

Figure12：Bond Issuance of Sub Saharan Countries (exc. South Africa)



(Source：World Bank "International Debt Statistics (2019)",
IMF "Sub-Saharan Africa Regional Economic Outlook (October 2018)" for Jan-June 2018

This may reflect not in the least the aspect that there is such an enormous demand for funds for infrastructure building in the African Continent that the China money has hungrily tried to absorb that demand, rather than the aspect that China is "selfishly" pressing its investment and loans to the African countries. It may also be interpreted that whether with the borrowings from China, or whether with bond issuance in the international market, the fiscal authorities in African countries put too much trust in the favorable market evaluation, all to have a loosened discipline as a result.

6. The Reasons Why the Argument of "China Threat" Nonetheless does not End

Nonetheless, the following three points can be raised as reasons why negative statements against the engagement of Chinese companies in Africa do not subside.

(1) As was noted above, it is difficult to get a full picture of Chinese external assistance statistically as it is not a member of the OECD-DAC.

Also the DAC members are not allowed to report grants and concessional loans (loans with softer conditions for interest rates, repayment periods, etc.) in aggregation with commercial loans. However, China, since it is not a member of the OECD-DAC, positions external assistance as a "South-South cooperation" that aims at mutual assistance and common development among the developing countries, and adopts as its principles "equality and mutual trust" politically and "mutual interest and win-win relationship" economically[9]. (In other words, it means politically China does not require democratized political system as a condition for loans as the western countries do nor does it intervene in the domestic affairs, but economically it pursues not only the interests of the assisting countries but also the interest of China itself.) Thus, it is a natural behavior for China to include high-interest loans in the assistance package.

In the backdrop of an "argument of China Threat" there is a kind of ominous feeling toward China which has been aggressively increasing its investment and loans to Africa despite the differences in the ways of thinking about external assistance and the opaque aspect of Chinese external investment and loans including commercial loans remain unsolved.

（2）On the other hand, while the main objective of investment in Africa by the Chinese private firms is in general based on their multi-nationalization strategy, it is likely that as a result of it, as the issue 1 of the research by McKinsey & Company released in June 2017 and the conclusion 3 by Mr. Li Shi's January 2018 article suggest, those Chinese companies come to form a "mini Chinese economic zone" in the countries they invest, constituting a barrier against fostering industries by local companies.

（3）In addition, as trade with Africa increases, China is now constructing or planning to construct navy bases in many parts of Africa in the name of protecting its shipping vessels on the high seas in addition to its coastal regions (its own territories). Although this is a move in line with the purpose of FOCAC which was established to promote trade, diplomacy, investment and security between China and African countries, China's increase in its naval presence in African countries is seen as an extension of the recent territorial issues in South China Sea and the takeover of the port of Hambantota in Sri Lanka.[10]

It has given rise to suspicion that this might threaten sometime in the future the current security of the sea lane in the region that the U.S. has constructed with its allies.

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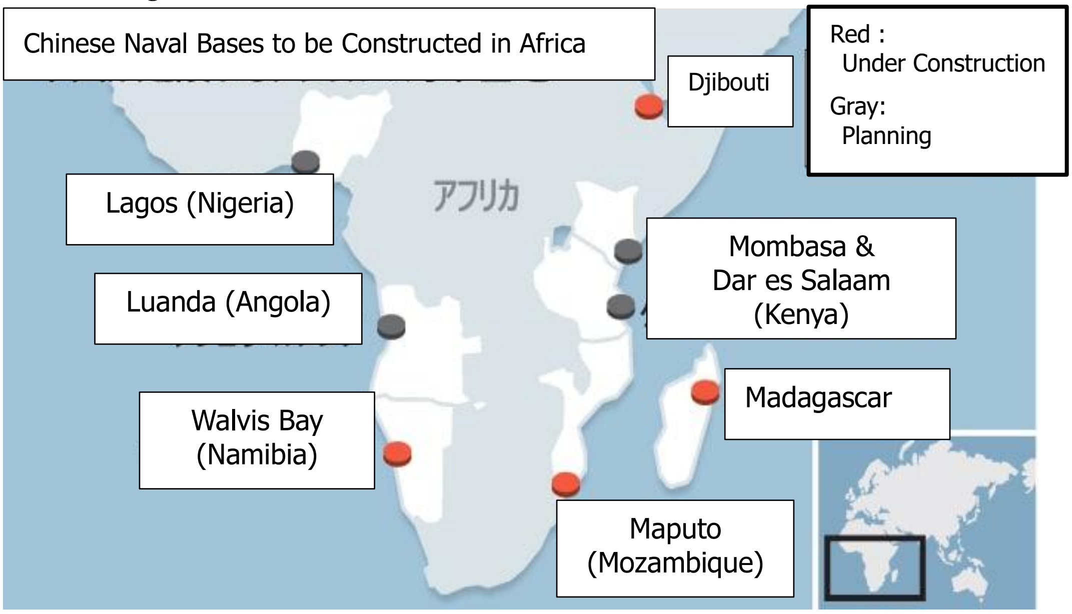
9 Shino Watanabe: "Expansion of Chinese External Assistance and Limitation of International Development Assistance", *Oriental Culture No.97*, Institute for Advanced Studies on Asia, March 2017

10 The case where the government of Sri Lanka leased out the port of Hambantota which was built with the help of China in the south of the country to China Merchants Port Holdings Co., Ltd., a Chinese state owned company for 99 years from December 2017 as it faced difficulty of repayment of debts to China. The Sri Lankan government has given assurances that the port will not be used for military ends.

Figure13：Chinese Naval Bases to be Constructed in Africa



（Chosun Daily News: Chinese Navy Aims at the seas around Africa, with negative reactions locally, November 27, 2014）

Under such circumstances, voices of concern over the existing Chinese investment or requests of their review have been raised from some of the African countries. In response to this, Chinese president Xi Jinping revealed at the FOCAC VII held in September 2018 a policy to give debt relief for Chinese non-interest loans extended to heavily indebted countries or poor countries which would come due in 2018. He also pointed out that China will not fund any empty investment. Although these are small steps, it is noteworthy that China took its first step toward transparency of its investment in Africa and sound growth of African countries.

Table3：Voices of African Countries

Country	Speech, Presentation Contents, etc.
Sierra Leone	October 2018 ・The Sierra Leone Government announced that the project to construct a new airport in the capital Freetown, with a $ 400 million loan from China, will be destroyed . (The previous administration signed a loan agreement with China before the change of government in March 2018)
Ethiopia	Mr. Afework (Minister of Foreign Affairs and Deputy Minister) (In an interview at the TICAD Ministerial Meeting in October 2018) ・The country has a large amount of debt in China for the construction of infrastructure such as a $ 4 billion railway connecting with its neighboring country Djibouti. In September, agreed with China on debt restructuring, extending the repayment deadline from 10 to 30 years.

Table3 : Voices of African Countries (Continued)

Country	Speech, Presentation Contents, etc.
Kenya	January 2019 (from the article of the leading newspaper "Daly Nation") ・If Kenya can not pay back debts of the Madaraca High Speed Rail (opened in June 2017), there is a document that the China Export-Import Bank, which is the lender, can seize assets held inside and outside Kenya. . (90% of the total construction cost of the railway （$ 3.8 billion）, is from China Import & Export Bank) ・There is a risk of transferring the right to use Mombasa Port, which is East Africa's largest port, to China. President Kenyatta and China's Foreign Ministry denied the above article.
Angola	Mr. Borges (Minister of Electric Power & Water Resources) (In an interview with the Nihon Keizai Shimbun in Tokyo in December 2018) ・We intend to reduce the ratio for China, which currently accounts for over 70% of external debt. ・In June 2018, a new investment law was put in place, and we would like to expand funding and investment from Japan, Europe and the United States.

（Various sources）

7. Conclusion （What are the ways for TICAD and Japan?）

Also in Japan there are growing interests in Africa, but as Figures 4 and 5 show, Japan’s total trade values with Africa remain at $16.3 billion, or only about one eighth of China ($136 billion), with the gap widening year after year. Japanese companies that expanded their business in Africa amounted to 795 (hubs) with 7,591 Japanese people staying there (as of October 1st, 2017 respectively), while the number of Chinese companies is reported to exceed 10,000 with more than a million Chinese living there, exerting far greater influence on the African economy and engagement. Thus, it is an urgent task for Japan to increase its presence in Africa and the meaning and importance of TICAD have been ever increasing.

TICAD, or Tokyo International Conference on African Development, invites, as FOCAC does, many government tops and representatives of the African countries and adopts “Declaration” and “Action Plan” to summarize the discussion, accompanied by the institutionalized follow-up system to implement these resolutions. (Although FOCAC which was launched in 2000 is often referred to as an imitation of TICAD established in 1983), they differ in the following two points:

① As was stated above, FOCAC provides a place for discussing multi-dimensional issues including trade, diplomacy, investment and security between China and Africa, but TICAD puts its focus on “African Development”.

② (Although this has much relation with the above), many representatives of international institutions led by the UN are invited as an observer to FOCAC but the purpose of the meeting is absolutely a process of bilateral consultation between China and African countries. On the other hand, TICAD is a multilateral framework that is joined not only by Japan but also by international institutions involved in development[11], partner countries, Asian countries, private companies and civil societies.

According to the African Development Bank (AfDB), it is estimated that it needs $600-700 billion annually to achieve sustainable development goals (SDGs) in Africa and annually $130-170 billion of infrastructure investment by 2025 to meet the increase of population, rapid urbanization and consumer demand. In order to satisfy this strong demand, it is essential for not only public sectors like governments and international development institutions but also private sectors playing a positive role to make widespread partnership and collaboration. It would be a total waste not to utilize the framework of TICAD where consensus on the sustainable development will be formed more easily among the participants.

Meanwhile, the government's cooperation becomes all the more important to support private companies on their business expansion to Africa.

According to "2018 Survey on Business Conditions of Japanese-Affiliated Firms in Africa" [12] Japan External Trade Organization (JETRO) released in January 2019, among the reasons for entry to Africa, the ratios for "natural resources (29.9% → 13.6%)" and "ODA from Japan (24.3% → 15.3%)" were down significantly in comparison with the survey in 2007, while there was an increase in answers of "growth potential (71.0% → 77.3%)" and "market scale (33.6% → 38.3%)". It confirmed the current situation where increasing number of companies regard Africa as promising market and make new investments.

Also, 76% of companies responded that "the Japanese government should strengthen its support." Specific measures for the government to support included "making various requests to the respective host governments regarding improving the investment climate (institutional building, improvement guidance, etc.) (57.3%)", "financial support (45.8%)", "information provision (45.8%)" and "conclusion of bilateral agreements (FTA/EPA, tax convention, agreement on investment protection, etc.) (45.8%)".

What come to our mind first about the government support are the free trade agreements (FTA) with African countries and regions. However, currently Japan has been left behind other countries as no negotiation on FTA has been made with African countries, let alone no effective

[11] TICAD lists in its report African Union Commission (AUC), United Nations Office of Special Advisor on Africa (UNOSAA), United Nations Development Plan (UNDP) and the World Bank as such institutions.

[12] https://www.jetro.go.jp/ext_images/_Reports/01/9ea2e8c6ad98870e/20180036.pdf

FTA with them.[13]

Table4：Major FTA Negotiations with African Countries/Economic Zones

	Name	Member Country / Region	Stage	Effective Date	Reference
EU	EU-South Africa Trade, Development and Cooperation Agreement (TDCA)	EU, South Africa	Effective	January,2000	
	EU-ACP (Africa-Caribbean-Pacific) countries Economic Partnership Agreement	EU, ACP Countries	Design stage	December,2007	Preferential measures for the EU's former colonial states could violate the WTO. Therefore, it aims to conclude an agreement consistent with the WTO.
	EU-Southeast Africa (ESA) Economic Partnership Agreement	EU、ESA Countries	Provisional application (part)	May,2012	Interim application: Mauritius, Madagascar, Seychelles, Zimbabwe
	EU-Central Africa Economic Partnership Agreement	EU, Cameroon, Central African Republic, Chad, Congo, Gabon, Equatorial Guinea, Sao Tome and Principe	Provisional application (part)	August,2014	First of all, provisional application started between EU=Cameroon.
	EU-East Africa Community (EAC) Economic Partnership Agreement	EU, Burundi, Kenya, Rwanda, Tanzania, Uganda, South Sudan	Partially signed	September,2016	Tanzania refused to sign.
	EU-Western Africa Economic Partnership Agreement	EU, Economic Community of West African States (ECOWAS)	Provisional application (part)	September,2016	Nigeria has not signed in the ECOWAS (16 countries).
	EU-South Africa Development Community (SADC) Free Trade Agreement	EU, Botswana, Lesotho, Namibia, Mozambique, South Africa, Eswatini	Provisional application (part)	October,2016	Officially effective in February 2018 (except for the possible Angola in the future)
China	China-Mauritius Free Trade Agreement & Preferential Trade Agreement	China, Mauritius	Finished negotiation	September,2018	Started negotiation in December 2017. It is expected to be the first FTA to be signed between China and African countries.
	China-South Africa Tariff Union (SACU) Preferential Trade Agreement	China、 SACU Countries (South Africa, Botswana, Lesotho, Eswatini (formerly Swaziland), and Namibia)	Agree to start negotiation	Start negotiation on June, 2004	There is a concern that cheap Chinese products will dominate the regional market on the SACU side (especially in the textile and sewing industry).
India	India-South Africa Tariff Union (SACU) Preferential Trade Agreement	India, SACU Countries	During negotiation	Start negotiation on October, 2007	The 5th meeting was held in October, 2010. The second part of the 5th meeting was held in March, 2013. Still in negotiations.

（Based on JETRO: Japanese FTAs with the World (December 2018)）

[13] "The Japanese FTA Strategy" (5) Strategic priority of EPA/FTA: With which country and at what timing Japan should conclude EPA/FTA?" that the MOFA website carries states that "it is theoretically possible to use EPA/FTA as a means to support developing countries, but if Japan should ever conclude an agreement, we should naturally take into account the interests to the Japanese companies (market scale of the host country, existence of trade conversion effect, etc.) Therefore, in order to actually consider the issue of concluding EPA/FTA with Africa we should first consider the ways to strengthen the specific economic relationship with a region that has sufficient market scale like Sothern Africa Development Community (SADC) and that has already concluded EPA/FTA with a third country (EU) and when the African Union (AU) becomes a customs union as a whole, we should consider what kind of cooperation is appropriate with the AU.

What comes next is export such supporting measures as preferential taxation on the exports to specified countries. India is a good case.

As Figure 4 and 5 shows, India rapidly increased its trade with Africa since 2000, with its values ranking the second after China. Also as Table 2 shows, outstanding amounts of its direct investment in Africa ranked 7th in 2016.

In Sub-Saharan, the countries where the UK used to be a colonial power, there live many overseas Indians and they even now live a life based on the Indian culture while playing a major role in business.[14] While utilizing its sales networks, they are actively selling Made-in India products.

Against this backdrop, the government of India announced in April 2015 "Foreign Trade Policy (FTP) 2015−20" which incorporated comprehensive export incentives. It is a developed type of Specific Market Scheme introduced in 2009. FTP aims at further increasing its exports (doubling by 2020) by streamlining export incentives and simplifying customs procedures.

This has enhanced the possibility of ways for the Japanese companies to expand their business in the African market in cooperation with Indian companies which have already constructed production and sales channels, even when the Japanese companies have not established their production/sales system.

The author considers that for securing a far-reaching future growth of the Japanese economy it has been increasingly important that Japan increase its presence in the African market by making full use of various policies and measures available while drawing on the other countries experiences.

<End>

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[14] It is estimated that about 3 million overseas Indians live in the whole Africa.

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【Annex 1】

Transition of FOCAC and TICAD

China (FOCAC)		
Name	Opening Year (Venue)	Major Decisions
FOCAC Ⅰ	2000 Beijing (China)	1) Debt exemption of RMB110 billion.
FOCAC Ⅱ	2003 Addis Ababa (Ethiopia)	1) Aid increase (amount unknown). 2) Developing human resources (10,000 Africans).
FOCAC Ⅲ	2006 Beijing (China)	1) Creation of "China-Africa Development Fund (CADF)" (contributed to $ 1 billion). 2) Doubling aid (amount uncertain). 3) Provide $ 33 billion preferential loan. 4) Provide $ 42 billion export credit. 5) Debt exemption (amount unknown).
FOCAC Ⅳ	2009 Sharm el-Sheikh (Egypt)	1) Promote further investment of $ 5 billion into Africa for Chinese companies. 2) 31 countries / 156 debt exemptions (RMB 10.5 billion). 3) $ 1 billion to "China-Africa Development Fund (CADF)".
FOCAC Ⅴ	2012 Beijing (China)	1) $ 20 billion export credit (infrastructure, agriculture, industry, SME support). 2) Aid RMB 600 million to the "African Union (AU)"'. 3) Government scholarships to 18,000 African international students in China.
FOCAC Ⅵ	2015 Johannesburg (South Africa)	1) A total of $ 60 billion is offered ・$ 40 billion for preferential loans and SME support ・$ 5 billion for grants and interest-free loans ・$ 5 billion for "China-Africa Development Fund (CADF)" ・$ 10 billion to establish the "China-Africa Productivity Fund" 2) 2 million technician training, and construction of an industrial park.
FOCAC Ⅶ	2018 Beijing (China)	1) A total of $ 60 billion is offered ・$ 15 billion in aid / interest-free loans ・$ 20 billion for credit line. ・$ 10 billion to support the establishment of the "China-Africa Development Financing Special Fund" ・$ 5 billion to support the establishment of "Import Trade Financing Special Fund from African Countries" ・Over $ 10 billion for 3 years for Chinese companies to promote investment in Africa 2) Exempt the non-interest loans being implemented by China in poor countries in Africa and inland / island countries, which repayment due until the end of 2018. 3) Military assistance to the African standby forces. 4) Active UN peacekeeping activities. 5) Create "China-Africa Peace and Security Fund".

Japan (TICAD)		
Name	Opening Year (Venue)	Major Decisions
TICAD Ⅰ	1993 Tokyo (Japan)	1) Strengthening emerging partnerships for sustainable development based on African countries' self-help efforts and support from African development partners.
TICAD Ⅱ	1998 Tokyo (Japan)	1) Grant of approximately JPY 90 billion in the education, health care and water supply fields. 2) Establishment of "Asia-Africa Investment Information Service Center" and holding "Asia-Africa Business Forum". 3) Consider expanding the scope of debt exemption grant aid. 4) Training program for 2,000 Africans.
TICAD Ⅲ	2003 Tokyo (Japan)	1) $ 1 billion in grant aid for education, water, health care and food support. 2) $ 1.06 billion for infrastructure related ODA. 3) Support training for over 2,000 Africans.
TICAD Ⅳ	2008 Yokohama (Japan)	1) Double ODA to Africa (exclude debt exemption). Among them, double the African bilateral gift. 2) Up to $ 4 billion in ODA loans (by JPY), mainly for infrastructure and agriculture. 3) Support African investment double to $ 3.4 billion by 2012. 4) $ 2.5 billion in financial support, including the establishment of the "Africa Investment Redoubled Support Fund".
TICAD Ⅴ	2013 Yokohama (Japan) "Held every three years thereafter"	1) NEXI up to $ 2 billion in trade and investment coverage. 2) Private sector support including $ 500 million in cofinancing (EPSA) with the Africa Development Bank. 3) JOGMEC's $ 2 Billion risk money supply. 4) $ 6.5 billion in public funding for infrastructure development.
TICAD Ⅵ	2016 Nairobi (Kenya)	1) Expand the "Enhanced Private Sector Assistance for Africa" (EPSA) betwen Japan and the Africa Development Bank for a total of over $ 3.3 billion. 2) Expand the JBIC's "Africa Trade and Investment Promotion Facility" (FAITH) support by $ 2 billion.
TICAD Ⅶ	2019 Yokohama (Japan)	<Will be held on August 28-30th, 2019> Before that, the public and private sectors of Japan and Africa will be launched a body to discuss business issues. And, will consider the conclusion of investment agreements and tax incentives. (from Nihon Keizai Shimbun Article (March 7th, 2019))

【Annex 2】

Criticism, Concern, Opposition, and Advocacy of Major Persons after 2018

Criticism / Concern	Opposition / Advocacy
March 7th, 2018 U.S. House of Representatives : Committee on Froeign Affairs ; Subcommitee on Africa, Global Health, Global Human Rights, and International Organizations (Hearing) <Subject> China in Africa : The New Colonialism? <u>CHRISTOPHER H. SMITH (Chairman)</u> ・While a number of African nations have welcomed Chinese engagement and investment, it often comes at a very high cost, with a focus on extractive industries, entanglement with neomercantilist trade policy, and a tendency to adopt the worst practices that prop up kleptocrats and autocrats. ・Africa needs investment and it needs infrastructure, we see a worrisome trend of African countries sliding into indebtedness to China, accumulating burdens that may be beyond their capacity to meet.	
March, 2018 <u>REX TILLERSON (Secretary of State (at that time))</u> ・Chinese investment does have the potential to address Africa's infrastructure gap, but its approach has led to mounting debt and few if any jobs in most countries. ・When coupled with political and fiscal pressure, this endangers Africa's natural resources and its long-term economic and political stability.	March, 2018 During Tillerson's Visit to Djibouti <u>MAHAMOUD ALI YOUSSOUF (Djiboutian Foreign Minister)</u> ・China is a very good partner. Of course, the burden of debt is there, we are aware of it. But let me tell you that it is so far manageable. ・We invested in a very strong and good infrastructure, and we hope that this commercial infrastructure will be able to help us pay back our debt. So we are not that worried, but – we keep an eye on that and we see that China is doing a good job in terms of financing our infrastructure.
April 11th, 2018 Curtain Raiser Speech by MD at Hong Kong University <u>CHRISTINE LAGARDE (Managing Director and Chairman of the IMF)</u> ・President Xi Jinping's "Belt and Road Initiative" can provide much needed infrastructure financing to partner countries, but should not be considered "a free lunch". ・The venture could lead to "a problematic increase in debt" in some of the participating countries, potentially limiting other spending as debt service charges rise. In countries where public debt is already high, careful management of financing terms is critical.	
	July 23rd, 2018 <u>STATEMENT BY CHINESE EMBASSY IN PAKISTAN</u> ・The report from the Wall Street Journal severely deviates from the facts (that "China-Pakistan Economic Corridor (CPEC)" led to the debt crisis of Pakistan). ・As to the people who fabricated the lie that the so-called "debt trap" in Pakistan is caused by CPEC, if they are unable to offer tangible assistance to Pakistan, they can at least try to put the sincere cooperation between other countries in perspective.
October 4th, 2018 Remarks on the Administration's Policy Towards China (at Hudson Institute) <u>MIKE PENSE (Vice President)</u> ・China uses so-called "debt diplomacy" to expand its influence. Today, that country is offering hundreds of billions of dollars in infrastructure loans to governments from Asia to Africa to Europe to even Latin America. Yet the terms of those loans are opaque at best, and the benefits flow overwhelmingly to Beijing.	September 3rd, 2018 Interview by CCTV <u>MOKGWEET MASISI (President of Botswana)</u> ・China always treated African countries equally, especially in cooperation and common development, which was different from some arrogant western countries.
October, 2018 <u>JAMES MATTIS (Defence Secretary (at that time))</u> ・We look at the – what we consider to be almost predatory, in some cases certainly predatory – economic behavior of China, which was encouraging smaller countries to pile on "massive debt" that "fiscal analysis would say they are going to have difficulty, at best, repaying."	September 3rd 2018 <u>ALI BONGO ONDIMBA (President of Gabon)</u> ・Gabon regards China highly for its efforts to strengthen cooperation with Africa, and wishes to accelerate and strengthen cooperation with China. ・China has not stopped supporting Gabon in its development, even during its most difficult times. Express gratitude to the Chinese leaders and investors for their confidence in Gabon. ・At the upcoming Beijing summit, Gabon will work to attract more Chinese investment in the core fields of agriculture, mining, lumbering, tourism as well as the high and new technology industries.

【Annex 2】（Continued）

Criticism / Concern	Opposition / Advocacy
September 3rd, 2018 The opening ceremony of FOCAC (Beijing Summit) CYRIL RAMAPHOSA (South African President) ・In the values that it promotes, in the manner that it operates, and the impact it has on African countries, FOCAC refutes the view that a new colonialism is taking hold in Africa, as our detractors would have us believe. (on the other hand) ・Much of what is exported from Africa are raw materials and primary products; much of what is imported from China are finished goods. We export to China what we extract from the earth; China exports to us what it makes in its factories. This obviously limits the ability of African countries to extract the full value for their abundant natural resources and to create work for their people. ・As we look to expand Chinese investment in Africa, we need to encourage more local partnerships between Chinese and African entrepreneurs. Through the transfer of knowledge and technology, such partnerships can contribute to the development and sustainability of African businesses.	September 3rd, 2018 Speech at Opening Ceremony of FOCAC (Beijing Summit) XI JINPING (Chinese President) ・We follow a "five-no" approach in our relations with Africa: no interference in African countries' pursuit of development paths that fit their national conditions; no interference in African countries' internal affairs; no imposition of our will on African countries; no attachment of political strings to assistance to Africa; and no seeking of selfish political gains in investment and financing cooperation with Africa. We hope this "five-no" approach could apply to other countries as they deal with matters regarding Africa. ・For China, we are always Africa's good friend, good partner and good brother. No one could undermine the great unity between the Chinese people and the African people.
	September 4th, 2018 XU JINGHU (Special Representative of the Chinese Government on African Affairs) ・If we take a closer look at these African countries that are heavily in debt, China is not their main creditor. ・It's senseless and baseless to shift the blame onto China for debt problems.
December 13th, 2018 Speech at the Heritage Foundation JOHN BOLTON (U.S. National Security Adviser) ・Great power competitors, namely China and Russia, are rapidly expanding their financial and political influence across Africa ・China are deliberately and aggressively targeting their investments in the region to gain a competitive advantage over the United States. ・China uses bribes, opaque agreements, and the strategic use of debt to hold states in Africa captive to Beijing's wishes and demands. Its investment ventures are riddled with corruption.	December 14th, 2018 Regular Press Conference LU KANG (Spokesperson of China Foreign Ministry) ・China has never colonized Africa, and China's cooperative efforts in Africa are meant to achieve the lofty goal of enhancing the benefits of people on the two sides. ・African Countries said that they know the West wants them to keep distance from China, but they can make their own judgement which is that China is a true friend and the most important cooperation partner for Africa. ・We will strengthen our friendly and mutually beneficial cooperation with African countries and in particular seek greater synergy to earnestly implement the outcomes of the 2018 FOCAC Beijing Summit and the consensus reached between Chinese and African leaders and further advance China-Africa Comprehensive Strategic Partnership for Cooperation.
December 13th, 2018 JOHN BOLTON (U.S. National Security Adviser) ・China's quest for more power in Africa was evident in nations like Zambia, where China was poised to take over utility company Zesco to collect the $6-10 billion debt.	December 14th, 2018 AMOS CHANDA (Zambian Presidential Spokesperson) ・China was not planning to take over Zesco and that the figure of between $6-10 billion given by Bolton was wrong. ・Zambia's total external debt was now $9.7 billion including $3.1 billion owed to China.
	December 17th, 2018 Regular Press Conference HUA CHUNYING (Spokesperson of China Foreign Ministry) ・When conducting cooperation with other developing countries, China always follows the principle of amity, sincerity, mutual benefit, inclusiveness, real results and good faith, never interferes in the internal affairs of these countries and attaches no political strings. ・We hope that the US and other countries can view China's cooperation with African countries and other developing countries in an objective way. ・It is advisable for them to provide tangible assistance to the developing countries as China has done rather than make irresponsible remarks with tinted glasses.