Chinese Capital In The Third World: Why It Captured The Third World And Elbowed The Traditional Western Capital

Introduction -Rise of China in Africa

Africa´s embrace of its relations with China has been a gradual journey. The first country to establish diplomatic relations with China was Egypt in May 1956.

Morocco, Algeria and Sudan followed in the 1960s. As of1980, around 40 of the independent African countries had diplomatic relations with China.

The 1990s presented a good opportunity for China to enhance its influence in Africa. As the Cold War ended, the West’s interests in Africa had been waning and the West’s involvement in African countries had been declining. China seized its opportunity to strengthen the political and economic ties with Africa.

This was evident when President Jiang Zemin paid a state visit from 8 to 22 May 1996 to Kenya, Ethiopia, Mali, Egypt, Namibia, and Zimbabwe at the invitation of the countries´ heads of state and delivered an address to the Organization of African Unity (OAU) in 1996. During the address, he laid out a “Five Points Proposal” by his government for the development of a long-term, more structured cooperative relationship between China and African countries. This laid the cornerstone for the creation of the Forum for China-African Cooperation in Beijing in 2000.

The points of the said proposal were:

- to foster a sincere friendship between the two sides and become each other's reliable 'all-weather friends';
- to treat each other as equals and respect each other's sovereignty and refrain from interfering in each other's internal affairs;
- to seek common development based on mutual benefit;
- to enhance consultation and cooperation in international affairs; and
- to look into the future and create a more splendid world.

To better understand China´s approach, we need to understand the strategy it employed which was; 'to treat each other as equals, develop sincere friendship, strengthen solidarity and cooperation, and seek common development.'

This approach when analysed critically brings out the following elements. One, China was ready to respect the path to development chosen by African people themselves and it wouldn’t impose;

Secondly, it was ready to abide by the Five Principles of Peaceful Co-existence and non-interference in the internal affairs of African countries;

China chose to respect all countries and treat them as equals, irrespective of their size, strength and wealth; that is to say, China was not going to have a ``favourite child ´´

China pledged to support African countries in their just quest to maintain their independence, state sovereignty and territorial integrity and oppose foreign interference in their affairs.

China's approach was that of a neutral party to promote unity among African countries and act as an arbiter in the settlement of disputes, through peaceful negotiation;

China undertook to uphold justice and help safeguard the rights and interests of African countries in the international arena. In so doing, China had strategically placed itself as an ally for Africa as a big brother.

Lastly, China spoke the language that many African leaders love and understand; "Aid." The continued provision of economic aid to African countries without anchoring it to any political strings; and abiding by the principle of equality and mutual benefit in its economic cooperation and trade with African countries, China endeared itself to Africa. Africa latched itself to China as a toddler would to their caregiver.

The Beijing Summit of the Forum on China-Africa Cooperation in November 2006 attracted forty-eight African states. The forum's highlight was the opening speech by China´s President Hu Jintao where he set out his country's plan for ´´strategic partnership´´ coupled up with ´´economic cooperation´´ with African countries based on a ´´win-win co-operation.´´

China pledged to double aid to Africa, increase finance for trade and infrastructure, allow duty free entry of African exports. It would also build schools and hospitals in Africa as well as setting up a fund for investment in Africa and the setting up of trade and economic cooperation zones across the continent.

Capital

To critically analyse the role of China in the third world, there is need to critically understand what it brings to the table that makes it appealing. China brings capital. For business to take place, there has to be production of goods and services. Production requires assets or tools of production to be in place and subsequent maintenance of the operation for gain. Capital simply translates to money.

Capital formation process is the means by which in our context, a country that has ''surplus'' funds transfers the same to another country that requires the funds at a cost. 'Capital is a necessary factor of production and, like any other factor, it has a cost,' according to Eugene F. Brigham in his book Fundamentals of Financial Management. In the case of debt capital, the cost is the interest rate that the firm must pay in order to borrow funds.

Therefore, it is safe to say that the money that China ´´pumps´´ into Africa is capital-business capital and not ''aid' 'in the conventional nature. The reason for this approach is by virtue of how China conducts its affairs in Africa where majority of China´s ventures are conducted through State-Owned Enterprises. The State-Owned Enterprises act as ''investment vehicles'' for the Chinese government by bidding for Government tenders in Africa, forming joint ventures for business between Chinese and African companies. Existing businesses in Africa that seek to expand also get capital injection from China and Chinese companies also acquire stakes in African ventures in their foray into Africa. The above clearly shows that China

is in Africa for business and in the process treats Africa as a partner in its venture.

China´s activities in Africa have however been view with an element of suspicion by the West because it has always perceived Africa as its own and no one was allowed to venture here without it´s blessings (the same West has labelled Africa as the dark continent). There are some elements raised about China´s activities in Africa that are meant to portray it in negative lights; that Chinese loans to Africa are adding up to unsustainable debts; that Chinese money is ``aid`` and that China has total disregard for democracy, rule of law and human rights. There are also arguments that China is in Africa for its raw materials i.e. to exploit its oil and natural resources with little or no compensation at all. China has also been accused of supporting its companies trading in Africa with unfair subsidised loans and export credits. The said companies have also been said to cause environmental degradation and corrosion of social values and standards. The mother of all being that China condones and turns a blind eye to corruption.

The above statements might have an element of truth however, this is not sufficient to undo the fact that China is in Africa to conduct business in Africa in a manner that is favourable to its interests and those of the host African states. After all, haven't the Western countries employed the same tactics in their conduct of business in Africa? They have. The assumption therefore that Africa is at all times vulnerable, is also flawed as the decisions are majorly made by existing leaders to favour themselves, their cronies and the bourgeois. The burden of dealing with corruption lies squarely the leadership of the African leaders and not China.

China and Africa: "Aid" as an investment tool in Africa

Buchang maoyi or Compensatory Trade

Compensatory trade is where a foreign side (in this case China), supplies machinery and equipment to an industry and is repaid in instalments of the goods produced. This allows an entity that doesn't have access to sufficient foreign exchange to be able to access the tools of production. When a state-owned leather factory was about to go under in Mali, the Chinese embassy sought an investment partner for it to rescue it. In return, the Malian company repaid the commercial credit by exporting cattle hides to China.

Other countries have participated in this resource for credit swaps where China got cotton from Egypt, coffee from Ghana, copper from Zambia, cashew nuts from Tanzania and minerals from the Democratic Republic of Congo. Taiwanese researcher Teh-chang Lin pointed out in 1993, the expanding practice of countertrade was transforming China into "a new and large buyer of primary products, one who is willing to supply development goods and services in return for local products."

This mode of combining trade with support to local industries and accepting payments in terms of goods is something that the west didn´t practice and by using the same, China endeared itself to Africa as a "development partner" as it allowed Africa to pay in whatever manner it could at any particular point in time.

Organisational change: use of development finance

As from 1990s, there was a radical change as to how China utilised money (this includes foreign

aid). China was taking an approach that ensured efficient use of funds and competitiveness by using State Owned Enterprises (SOE) which are quasi-private but had an element of government owned entities. This hybridization was meant to ensure that they were able to participate in economic ventures such as production i.e. manufacturing and subsequent sale of the said goods in retail and in a profitable manner. It is important to note that by and large, the said enterprises were instruments of the Chinese government and were under the control of the government at all times.

The China Development Bank, China Export Import Bank, and China Agricultural Development Bank were created in 1994. Their main purpose was to ensure that they could allocate funds to carefully chosen financing of projects through proper planning and balance of the market's needs. Indeed, China effectively shifted its approach and started offering concessional aid loans through its Export Import Bank. This is well articulated in a communication to the Ministry of Commerce from China's State Council: combine aid to Africa, mutual cooperation, and trade together an approach that was dubbed the Great Economic and Trade Strategy.

In essence, China was giving money to Africa, building relations with Africa and lastly making money from (and to a little bit extent for) Africa by trading with it. This was to be achieved through a couple of ways. One was setting up of joint-venture investments in manufacturing and agriculture. By doing so, China ensured that the host African country owned a piece of the pie as some of the money (profits) that was earned remained at home. China also set up factories in Africa which in essence would automatically lead to the demand of Chinese machines and parts for service over time. As the government put it in 1995: "Chinese trade corporations and manufacturing enterprises should be encouraged to invest in African countries with better investment climate to promote the export of our medium and small equipment, processing machinery, relevant technology, and labour service."

The Chinese government's quest in Africa would have been incomplete without the exploration of and investment in mineral and forest resources. Automatically, China would go for black gold! Sudan became the first country to receive Chinese aid to finance oil exploration, in a joint venture with China National Oil Corporation.

China's approach in African economies helps one to see how the element of hybridization of theory is employed in international political economy as it has elements of Nationalism/Mercantilism, Marxism and Hegemony intertwined.

Win-win for everyone.

Agriculture: How China aids green revolution in Africa

Agriculture averages 24% of GDP across the African continent. With post-harvest activities taken into account, agriculture-related industry accounts for nearly half of all economic activity in sub-Saharan Africa. The region holds about half of the world's fertile and as-yet-unused land – and yet it spends US$25 billion annually importing food.

Africa looks up to China in terms of better agricultural management by learning how to manage the resources that it has to maximise productivity and profit. About a fifth of the world consumes food produced in China yet it has very little arable land. So how does it achieve this? It comes

from a combination of good use of agricultural technology, quality seeds and expertise in end to end production i.e. from farm to fork, the same which can be replicated in Africa which has more arable land.

China views Africa as a means to achieving its goal for food security. The Chinese have watched Western countries use food as a political weapon to pressure the former Soviet Union, Iraq, and other countries.

As China uses Africa as a zone to ensure its food security, it will definitely transfer its more advanced agricultural production methods to African farmers by actively participating in agricultural activities across the continent. Between 2003 and 2008 more than 4,000 Africans travelled to China for agriculture-related courses lasting from three weeks to three months.

Beijing is also merging business and aid in the establishment of fourteen new agro-technical demonstration stations across Africa.

This is in turn will cumulate to improved production of food which ensure that firstly, Africans produce enough to eat, hence combating the element of famine. Secondly when there is surplus, some of the produce can be sold and in turn improve the economic livelihood of the farmers where they rely on agriculture as an economic activity. With the increase in income, households are in a position to have an improved standard of living.

China’s Aid System: How it Favours the Third World

Chinese aid is normally intertwined with economic cooperation. They come as a package i.e. while China offers Africa grants and zero interest loans through the Ministry of Commerce and concessional loans through China Eximbank, it also offers aid in the form of humanitarian aid, training and scholarships, youth volunteers, medical teams, budget support, debt relief and building of infrastructure and factories that come with technical support. China’s aid institutions are centred around the Ministry of Commerce, The Ministry of Foreign Affairs and China Eximbank with the State Council at the apex of this matrix. That element of offering trainings ensures that there is transfer of skills to Africans who are with the Chinese during their activities in Africa. It is better to be taught how to fish than to be given fish.

In summary, the following factors endeared China to the Third world countries and more specifically Africa. China didn’t have a bristling past with Africa as the former colonial masters, hence some sense of baggage and mistrust from the initial interaction. To Africa, China was as clean as a whistle giving it an easy passage into Africa.

China is viewed as a success story, the perfect example to Africa, a model than can be replicated. This is by virtue of pulling majority of it´s citizens from poverty and transforming their lives not to mention the fact that it is now the second largest economy in the world. Africa wants to be associated with the success story that is China. The element of not imposing it´s success story but rather letting Africa grow at it´s own pace is also an endearing factor. China does not push Africa to conduct it´s affairs in a certain way, that is to say, it doesn’t have the holier than though approach that has been employed by the West since time immemorial.

Endnotes

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