A Trilateral Dialogue on the United States, Africa and China

Conference Paper 2 and Responses

The Commercial Relationship between the United States, China and African Countries: Areas for Trilateral Cooperation

This paper is part of a collection of papers written for a conference on May 13, 2013 on the relationship among the United States, China and Africa. These draft conference papers are the basis for further research. The rest of the papers can be found here.

The Commercial Relationship between the United States, China and African Countries: Areas for Trilateral Cooperation

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One of the most important issues related to American policy toward Africa is U.S. competition with China's growing commercial engagement on the continent. During his confirmation hearings in January, Secretary of State John Kerry declared the U.S. was "not even in the game" with respect to China's unprecedented commercial presence in the region. Indeed, while U.S. businesses have recently increased their interests in Africa, this rise has been dwarfed by China's actions. In 2009, China surpassed the U.S. to become Africa's largest trading partner, and from 2001 to 2011, Chinese exports to the continent rose from $4.4 billion to $56.3 billion—more than a twelvefold increase (U.S. GAO, 2013).

This changing dynamic has prompted a series of initiatives to support American competitiveness on the continent. Last summer, President Obama announced a new U.S. Strategy toward sub-Saharan Africa, which includes a campaign to increase U.S. business in the region called "Doing Business in Africa." U.S. Senator Dick Durbin and Congressman Chris Smith similarly introduced the "Increasing American Jobs through Greater Exports to Africa Act" (Senate Bill S. 2215) in May 2012, aiming to triple exports to the region within the next decade.[1] These efforts attempt to better position the U.S. to benefit from Africa's recent growth, but also seek to balance China's influence in the region.

The United States has long critiqued Chinese partnerships and business practices in Africa, fearing that differing approaches to transparency and international standards for commerce and trade damage U.S. development initiatives and diminish its role in the region. The Durbin legislation reads, "When countries such as China assist with large-scale government projects, they also gain an upper hand in relations with African leaders and access to valuable commodities such as oil and copper, typically without regard to environmental, human rights, labor, or governance standards."

While these concerns reflect longstanding American values and interests, the United States should also not neglect the powerful opportunities for cooperation with China and its African partners. The U.S., China and African countries all share distinct economic objectives in the region, and a "trilateral" approach, which would accentuate cooperation in a number of areas, has significant potential to support Africa's longstanding development goals. Opportunities to collaborate are especially promising given that recent analyses of trading patterns indicate that American-Chinese commercial competition might be overstated. American-Chinese partnership in Africa also provides an important platform to strengthen broader relations between the countries. Former U.S. Ambassador to Burkina Faso and Ethiopia David Shinn writes, "Africa is an ideal location for the United States and China to reduce mutual suspicion and benefit African countries at the same time" (Shinn, 2013).

Promising areas for trilateral cooperation in the commercial sphere include efforts to support Africa's regional integration, joint work to address corruption, and mechanisms to support commerce, which could include a unified approach to local content provisions. This paper describes potential collaboration in these areas after a short discussion of trade and investment trends on the continent more generally.

[1] They reintroduced this legislation as S. 718 in the Senate on April 11, 2013.

Trade and Investment Trends: The Status of U.S.-China Competition in Africa

Analysis of current trading patterns indicates that Chinese and American firms actively compete in various sectors, but, in a majority of cases, operate in different areas of these markets and possess separate and unique corporate capabilities. Separation can be viewed through the analysis of Africa's biggest international industries—the oil and gas sector.

In 2011, petroleum products represented 59 percent of the value of Chinese imports from Africa, and minerals, ores and metals represented another 32 percent (U.S. GAO, 2013). Similarly, for the U.S., petroleum-related goods amounted to 81 percent of sub-Saharan African exports to America, and minerals, ores and metals amounted for another 9 percent (U.S. GAO, 2013). U.S. investments in Africa are also concentrated in the mining sector. The majority of American foreign direct investment (FDI) in Africa is in mining, specifically concentrated in "crude-oil extraction" (Jones & Williams, 2012). It is difficult to know with certainty the precise amounts and location of Chinese FDI in Africa as official data is often not reliable. Regardless, Chinese companies have purchased significant ownership interests in oil wells within most resource-rich African countries.

Despite the comparable levels of Chinese and U.S. investments in the oil and gas industries, American and Chinese firms compete only in a few instances. Superior extraction capabilities, for example, make American firms highly competitive players in oil block operations, including deep water drilling, well maintenance and project management. In contrast, no Chinese firm currently holds similar "operator" roles in Africa's oil industry due in part to a "lack of technology and capacity" in these areas (U.S. GAO, 2013). While competition is currently limited, Chinese firms are quickly advancing in this area. Stephen Hayes, president of the Corporate Council on Africa, estimates that China will gain this expertise and effectively compete with American companies for operator roles within five years (U.S. Senate Committee on Foreign Relations, 2012). However, at the moment, competition between the U.S. and China is limited within Africa's largest exporting industry.

U.S.-Chinese business interactions outside the oil and gas sector are also modest. Chinese imports to Africa, for example, are primarily manufactured goods, including home appliances, clothing, leather goods and other materials (U.S. GAO, 2013). In contrast, American exports to Africa are primarily composed of relatively high-tech machinery, including equipment for power generation plants, boilers and other specialized parts (Jones & Williams, 2012). However, overall, U.S. exports to Africa represent a very minimal percentage of American trade flows, with export values to Africa standing at approximately $11 billion, which is only 1.4 percent of total U.S. exports to the world (U.S. Department of Commerce, 2012). As Africa's consumer class grows, American firms will likely take greater interest in the African market; however, at the moment, Africa as a destination for American products and related competition with Chinese goods are not of major concern.

Competition with China in the African market should not be understated. Chinese firms benefit from significant state financing and are not accountable to the same types of corporate governance structures, like the Organization of Economic Cooperation and Development (OECD), which oversee and regulate the behavior of American businesses. These features of Chinese investment in Africa provide distinct advantages and help the country dominate specific sectors of the African market. Moreover, Chinese imports of counterfeit American goods are serious concerns for many U.S. companies. However, overall, the intense rivalry that is often depicted in American dialogue about Chinese investment in Africa and overall concerns about

American competitiveness in the region do not always correspond with trade and investment patterns.

Recent research indicates that access to multiple international markets actually benefit African economies. Vera Songwe and Deborah Winkler (in a 2012 Brookings Africa Growth Initiative Working Paper) report distinct advantages for African countries that export to the United States, as opposed to the EU and China. Economies linked to American markets experience increased productivity, labor demand and value addition. However, the African countries in Songwe and Winkler's sample saw reductions in these economic benefits as they became overly dependent on trade with the U.S. These countries therefore have an incentive to support good trade relations with the U.S., but also pursue engagement with other international actors.

Potential Areas for Tripartite Cooperation

Regional Integration

Regional integration is perhaps the most important economic priority for Africa. During last summer's African Union Summit, leaders from across the continent committed to an ambitious new initiative to create a regional free trade agreement by 2015. This new effort complements longstanding regional integration commitments, including the Abuja Treaty, which similarly aims to establish a common customs' union by 2019. Removing restrictions to cross-border trade in goods and services holds enormous potential to support commerce and trade on the continent. However, progress has been slow. High-level political commitments have not resulted in comparable reductions in bureaucracy and other obstacles. For example, Ugandan think tank the Economic Policy Research Center identifies nearly 20 different security checkpoints required for the transport of goods between Kampala and neighboring Kenya (Othieno, 2012). Significant support and activity is still needed to advance Africa's integration agenda.

Regional integration in Africa is a stated goal of both the American and Chinese governments. During last year's Forum of China-Africa Cooperation (FOCAC), former President Hu Jintao committed the Chinese government to supporting the "African integration process," including transnational and trans-regional infrastructure projects and upgrades to customs and commodity expectations facilities as key features of Chinese assistance to the continent (Xinhua, 2012a). Regional integration also features prominently in President Obama's U.S. Strategy toward sub-Saharan Africa. This plan commits the United States to measures that support modernization of customs and the development of infrastructure that "strengthens regional trade and access to global markets," (White House, 2012). These official efforts enjoy support in both the American and Chinese private sector. Integrated African economies create larger markets for external investors, build economies of scale and reduce transaction costs.

Some progress has been made on both U.S. and Chinese commitments toward regional integration. The U.S. is, for example, working toward the establishment of the U.S.-East African Community (EAC) trade and investment partnership (EAC, 2012). This initiative seeks to support economic integration in East Africa and enhance the U.S.-EAC trade relationship. According to a joint statement, the U.S. has committed $10 million to the EAC secretariat for the purpose of regional integration. The partnership will hold its next ministerial meeting in Addis Ababa at the 2013 AGOA conference.

After the FOCAC commitments in July 2012, little has been reported regarding follow-up actions by China in Africa. Little progress on FOCAC is understandable given that China has undergone a major leadership transition. In a show of continued commitment to the Africa region, Xi Jinping took his first foreign tour as the new president to three African countries: South Africa, Tanzania and the Republic of the Congo. On these visits, the president reiterated his funding commitments as outlined at FOCAC.

Given these common interests and stated commitments, a significant scope exists for a trilateral approach in support of regional integration in Africa. Collaborative activities in this area could specifically build on effective existing models in which the Chinese government funds infrastructure development, while their American counterparts complement these efforts with training and technical assistance. This type of shared activity has occurred most frequently in the health sector, in Liberia, for example, where African partners have reportedly facilitated Chinese construction of hospitals with American capacity building efforts for institution staff.

Similarly, last November at the second U.K.-Africa-China Conference of Agriculture and Fisheries in Beijing, the U.K. government invested approximately $15.9 million toward agricultural programs in Africa under the agreement that the Chinese would provide the appropriate expertise and trainings (Zhu, 2012). The United States, China and participating African governments could adopt this model for transnational infrastructure and other regional integration initiatives, with investments, construction and trainings divided trilaterally.

Corruption

Ensuring transparency and accountability in commerce and trade is also a commitment of many African governments. For example, as of 2012 five sub-Saharan African countries are compliant with the Extractive Industries Transparency Initiative, and another eight are candidates under consideration (IMF, 2012). The African Union has similarly adopted the Convention on Preventing and Combating Corruption in 2003, which commits member countries to “prevent, detect, punish and eradicate corruption and related offences in the public and private sectors.” However, corruption continues to stand as a major impediment to growth and development in nearly every African country.

Efforts to combat corruption also stand as high priorities for Chinese and American leaders. According to a 2011 survey conducted by Transparency International, out of businesses from 28 countries, Chinese firms were perceived to be the second most likely to pay a bribe to a foreign official (ranked 27 out of 28th) with only Russia ranking worse. While U.S. firms fared better in this study (they were ranked 10 out of 28), American corruption in Africa occurs too frequently. In February of last year, the U.S. Department of Justice launched a formal investigation into the Houston-based Cobalt International Energy for alleged violations of the U.S. Foreign Corrupt Practices Act (Burgis, 2012). Cobalt joins other American companies who have struggled to comply with anti-corruption laws in Africa, including Halliburton Co. and Kellog, Brown, & Root (Rubenfield, 2012).

Official measures to combat corruption in China have recently gained momentum. In February 2011, Chinese officials amended the national Criminal Law to specifically ban bribery of foreign officials (Covington & Burling LLP, 2011). This initiative complements official rhetoric in China. In his last national address, former President Hu Jintao promised “unremitting efforts to combat corruption” (Xinhua, 2012b). While focused primarily on domestic corruption issues, these statements indicate a new focus on transparency, which can be extended to China’s international affairs.

Despite mutual commitments to fight corruption, few transparency initiatives have been coordinated between the United States, China and African countries. A unified trilateral approach seems particularly promising, however, given that acts of corruption require complicity of multiple actors. African governments might initiate tripartite cooperation on corruption by advancing recent open data initiatives. According to the U.S. GAO (2013), both Ghana and Kenya have begun publishing information about Chinese loans and grants to their countries. Open access to information provides opportunities for civil society groups to react to discrepancies in reported funding amounts. Support for uniform transparency standards and open data capacity building are two areas for the tripartite to jointly battle corruption. A dialogue on joint efforts to address corruption in Africa should be considered as the United States and China increase investment in the region. Each party in the tripartite holds specific interest in ensuring a stable and predictable market place, so collaborative efforts to address graft and other areas of corruption are mutually beneficial for each actor.

Job Creation and Structural Change in Africa

Recent reports indicate strong economic growth will continue on average across sub-Saharan Africa. According to the World Bank, the region's gross domestic product is expected to grow by more than 5 percent in the coming year, which is more than double the forecasted global average of 2.4 percent. However, despite this progress, economic gains have not resulted in equivalent improvements for the region's workforce or the overall structure of its economies. Unemployment is widespread throughout the continent, and industry continues to be based almost exclusively on primary commodity extraction, with limited or no manufacturing, technology transfer or value addition.

In response to these deficiencies, African governments are increasingly implementing local content requirements for foreign investment. These policies require external investors hire local workers, enter into partnerships with domestic firms, use materials from regional vendors, or implement other strategies to benefit national economies. The government of Uganda, for example, recently passed legislation stipulating that all foreign investments in the oil and gas sector include at least a 48 percent partnership with local companies (Kasita, 2013).

While popular among African policymakers, local content and local hiring provisions are a major concern for American and Chinese companies. U.S. companies like General Electric, for example, are frequently engaged in high-tech infrastructure developments that require specialized skills unavailable in many parts of Africa. Moreover, local markets frequently are unable to supply the materials required for these projects. Time and transaction costs are also a concern. The U.S. firm Wal-Mart was allowed to purchase a stake in the South African firm Massmart only after multiple hearings with the South African Competition Tribunal. The Tribunal allowed Wal-Mart's entry on the condition that the firm set up an $11.8 million fund to support local suppliers and that they not fire any workers for two years (Kew, 2012).

Chinese companies share similar concerns about local content and labor regulations in Africa. According to the U.S. GAO (2013), Chinese firms operating in Angola have been unable to comply with the country's requirement mandating at least 30 percent of project workers must be Angolan. Noncompliance with local content has contributed to growing criticisms of Chinese investments in Africa. Nigeria's Central Bank Governor Lamido Sanusi recently described these trends as "the essence of colonialism" (Sanusi, 2013).

Despite this tension, African countries share a commitment to creating economic environments conducive to foreign investment. Meeting the needs of the continent's massive infrastructure gaps, growing consumer class and economic potential require major external investments and strong foreign partnerships. Given these demands, the U.S., China and African countries all possess a strong need for dialogue and understanding how to increase benefits of foreign investment on the continent while also allowing for efficient and profitable external enterprise. Trilateral dialogue on local content provisions holds the potential to support progress on these issues.

Potential Obstacles to Collaboration

Trilateral engagements between the U.S., China and African countries face significant challenges. China in particular might be reluctant to pursue an active trilateral strategy given that its foreign policy is predicated on non-interference and that it sees itself as a "developing country," similar to many in Africa. Trilateral cooperation also requires political will, which has yet to be effectively mobilized. Ambassador David Shinn (2011) reports of discussion between the U.S. and China in the areas of health and agriculture and cites lack of interest from key personnel in the field as the major factor for failed trilateral discussions. Finally, many Africans might see cooperation between the U.S. and China as an effort to exert leverage on regional governments and pressure African entities on American and Chinese goals in the region.

However, despite these reservations, partnership between Africa's two largest commercial partners holds unprecedented potential to support development in specific areas. Regional integration, corruption and economic development are shared concerns and development efforts should be coordinated to avoid duplication and other inefficiencies. As long as cooperation is closely aligned with African objectives and integrated with African partners, taking advantage of these overlapping interests can support regional development efforts and build trust between all partners.

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Response Paper 1: A Review of "The Commercial Relationship between the United States, China and African Countries: Areas for Trilateral Cooperation"

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There are three main points concerning the themes of the paper:

First, in terms of the current China-U.S. engagement in Africa, of course there is no doubt that China and the United States are now the two primary players in Africa. However, even though since 2009 China has surpassed the U.S. to become the biggest trade partner with Africa, China's influence in Africa in the areas of politics, military and security ties, local civil society links and others remains much weaker than that of the United States. In other words, while China's influence in the economy and trade in Africa is increasing, the U.S.'s influence in Africa is not decreasing. On the contrary, its military influence in the continent in particular has increased in the past years. For example, with the establishment of the U.S. Africa Command in 2007, America has accelerated its pace of gathering information, setting up small-scale military bases and directly participating in attacking extremist forces and terrorism in Africa. Given the different main areas of engagement areas in Africa, there is no significant competition between China and the U.S. in Africa. Even in the field of trade and investment, the mainstream competition is the kind of positive and good competition based on market principles that also welcomes and benefits African hosting countries. Actually, there is much talk of competition (sometimes even confrontation) in American reports and Congressional hearings; however, there are few similar writings published in China's media, and competition has never been mentioned in any official statement or official speech. In China, when the discussion goes to China-Africa relations, it is always analyzed from a bilateral perspective, focused mainly on the issues solely between China and Africa, rather than the third partner.

Second, in terms of the potential areas for tripartite cooperation, I agree that all three issues (regional integration, corruption, job creation and structural change in Africa) mentioned in the paper are important and worth pursuing. However, compared with education, health and agriculture (the three non-sensitive, traditional, long-discussed and consensus-reached areas), the three new areas mentioned in the paper seem more challenging and more difficult to bring the cooperation from words into action. I would like to reiterate here, that at the first stage, education and public hygiene could be a good entry point for proving that the trilateral cooperation could bring benefit to African people. China and the U.S. can cooperate in providing teaching equipment, teaching staff and teaching network construction in primary, secondary and tertiary education. They can also consider an arrangement whereby the U.S. provides capital for building hospitals, and China supplies medical professionals to train African doctors and nurses to fight disease.

Third, in terms of potential obstacles to collaboration, it is not fair to blame China's "reluctant attitude" or Africa's "suspicions or doubts." In fact, as I have argued in several articles before, the U.S. also should also take an inward-looking and self-critical attitude for finding out what has been going wrong with collaboration and cooperation. To my understanding, the essential element here is to create an atmosphere of friendship and mutual trust atmosphere surrounding the bilateral relationship between China and the United States. Each side should understand the other's presence in Africa from a historical perspective. In this sense, mutual respect rather than finger-pointing is critical for laying a foundation for any cooperation. The establishment of a friendly and mutual trust atmosphere needs to understand the different approaches of each other and to respect the different concern of each other as well. Labeling "neo-colonialism" to other's approach in Africa is an easier but dangerous way for promoting cooperation. As I mentioned before, not only is there is little discussion about China-U.S. competition in Africa in China's media and published writings, China has always stressed that its relationship with Africa is inclusive and open, and does not reject or target any third party. When Chinese leaders visit Africa, they never make any negative comments on other countries' presence in Africa. This aspect of U.S. foreign policy indeed needs reflection and second thought, since we hear too often about U.S. high-ranking officials lashing out at China's presence in Africa when they visit the continent.

Apart from the three main points, I would like to raise another new cooperative area for further discussion: security.

Actually, by taking a close look at the Obama administration's new strategy toward sub-Saharan Africa and the five priority areas outlined by former Chinese President Hu Jintao at the 5th Forum on China-Africa Cooperation in Beijing, we can find some important areas for convergence in U.S. and China policy in Africa. The new U.S. sub-Saharan Africa strategy sets forth four strategic objectives: strengthening democratic institutions; spurring economic growth, trade and investment; advancing peace and security; and promoting opportunity and development. The five priority areas that China focused on in the coming three years are the following: increasing the investment; finance and development assistance aimed at improving African people's livelihood; promoting African integration; strengthening people-to-people diplomacy; and advancing peace and security. Obviously, the African security issue stands out as a potential area for the U.S.-China-Africa trilateral cooperation.

Constrained by its "non-interference policy", China's involvement in the African security issue has long been limited to taking part in the U.N. multinational peacekeeping forces for missions in Africa. However, with China's increasing presence in Africa, China now can feel more and more impact from African security challenges. For example, the Libyan war in 2011 forced the withdrawal of 35,000 Chinese personnel from that country, and the conflicts between various factions in Sudan led to the killing or kidnapping of some Chinese employees. These developments prove that Africa's security is closely related not only to local development, but also to the fate of Africa-based Chinese enterprises and their employees. Helping African countries create a peaceful and secure environment will benefit the continent's development. It will also serve the interests of China and be beneficial to peace and stability across the world.

Compared with China's limited experience in the area of African security, the U.S. has long been involved directly and has abundant experience. China and the U.S. could first exchange intelligence and experience in conventional and unconventional security. They could also join efforts to help Africa build a strong peacekeeping force by cultivating each country's own comparative advantages in such areas as funding and training (the U.S.) and weaponry (China's conventional arms are effective and affordable).

After all, even though we face challenges ahead, where there is a will, there is a way. But before moving substantively toward trilateral cooperation, we should unload some historical burdens, build mutual respect for each other's interests in Africa, and include African participation as much as possible in achieving development and prosperity in Africa.

Response Paper 2: A Review of "The Commercial Relationship between the United States, China, and African Countries: Areas for Trilateral Cooperation"

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The paper takes a critical look at the diversity in commercial interests by the United States and China in the African continent and the approaches needed to build a formidable trilateral cooperation. The paper is segmented into four parts: an introduction; American and Chinese trade and investment trends in Africa over the years; potential areas for tripartite cooperation; and potential obstacles to collaboration. In the introduction, the paper predicated America's recent undertaking of a series of policy initiatives on the African continent to shore up its competiveness against the backdrop of China's growing commercial engagement on the continent. It also notes the United States' long-standing criticism of Chinese partnerships and business practices in Africa, which is hinged on the fear that "differing approaches to transparency and international standards for commerce and trade damage U.S. development initiatives and diminish its role in the region." However, the introduction of the paper points out that there are prevailing opportunities where the United States, China and their African partners can work together in a cooperative fashion to strengthen not only their commercial trilateral interests, but broader relations. To this end, the introduction set out the paper excellently to examine the rest of its dimensions.

The analysis of the trade and investment trends of the United States and China show clearly that firms from these two countries possess idiosyncratic corporate capabilities; hence, they operate in different sectors in Africa. While the paper used the oil and gas sector to showcase the disparate operations of the American and Chinese firms in Africa, there are other sectors in which these disparities are manifest, but are not referred to, especially the involvement of different firms from these countries in certain mining activities. The paper could incorporate some of these sectors to broaden the scope of the disparate involvement of America and Chinese firms. It is also evident, under the trade and investment section of the paper, that the bulk of United States' (90 percent) and Chinese (91 percent) imports from Africa are petroleum-related products, minerals, ores and metals. Although African countries will earn some foreign exchange from the gargantuan exportation of such resources to the United States and China, the paper could touch a little bit on the negative implications of this trend in their commercial interests on other sectors in Africa. Particularly, it will be interesting to know whether with the implementation of the African Growth and Opportunity Act are American imports from other sectors in Africa, aside from the mineral resources sector, growing or not?

The paper advances three potential areas for tripartite cooperation: increasing regional integration, reducing corruption, and focusing on job creation and structural change in Africa. These identified areas are indeed fundamental to enhancing the gains that each country stands to make in the trilateral relationship. However, there are other equally overarching potential areas for this tripartite cooperation, which have not been addressed in the paper. The following areas should be considered by the paper:

<u>Strengthening of democratic governance and institutions in Africa</u>

There are several countries in Africa that are without either democratically elected governments or are experiencing political instability and weak institutions. These situations are of enormous concern to most African leaders and should also be the same to the United States and China because of their vested interests in Africa's natural resources. The paper should therefore reflect on how the tripartite cooperation between the United States, China and Africa can bring about political stability and the rule of law to all countries in the African continent.

Education and training

The paper identifies the lack of employees with specialized skills in many parts of Africa as a major concern for American and Chinese companies; however, it fails to highlight this weakness in the African continent as an opportunity for the tripartite cooperation. Unequivocally, the United States and China have advanced technologically in different ways than Africa. The paper should look at how a trilateral dialogue can fashion out ways and means to jointly train African workers to acquire skills in certain critical areas.

Strengthening the diversification of African economies

Having identified that industry continues to be based almost exclusively on primary commodity extraction, with limited or no manufacturing in the African continent, the paper shows that industrial development is stagnating. Meanwhile, the United States and China's bulk imports from Africa are petroleum-related products, minerals, ore and metals. Thus, the paper could consider how the strengthening the diversification of African economies can serve as an opportunity for the tripartite cooperation. Finally, the paper identifies potential obstacles to the realization of the trilateral engagements between the United States, China and African countries, which include China's reluctance, the lack of political will of governments, and Africa's perception of cooperation between United States and China as an effort to exert leverage on regional governments. The paper should also consider the lack of transparency and possibly the lack of mutual respect as the greatest threats to Africa-China-U.S. cooperation.