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Australia-China-Africa investment partnerships

A new frontier for triangular cooperation?

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Abstract

Purpose – This paper aims to examine the potential for "triangular cooperation" between investment partners from Australia, China and host African nations to contribute to the economic development in Africa.

Design/methodology/approach – The paper discusses a number of complementarities between Australian and Chinese investors in mining, agriculture, energy, research and education and finance – sectors vital to Africa's future development. These complementarities are examined in light of recent development studies on the benefits of triangular cooperation and recent literature examining links between foreign direct investment (FDI) policy and economic development.

Findings – The paper concludes that there is much to be gained by making the most of the existing and potential synergies between Australian, Chinese and local investors in African settings.

Research limitations/implications – The implications of this paper are, first, that African nations should keep the benefits of triangular cooperation in mind when designing FDI policies and, second, that Australian and Chinese investors should be more willing to explore potential investment partner synergies when investing in Africa. The paper also suggests an agenda for future research into how good design of FDI policies might best promote healthy economic development in African nations.

Practical implications – Australian and Chinese companies should be more willing to explore potential avenues for cooperation when investing in Africa, while African governments should be more mindful of how rules and policies can maximise the local benefits of FDI.

Social implications – African governments should be more mindful of the quality, rather than the quantity of FDI when drafting relevant laws and policies.

Originality/value – The value of the paper is in applying the concept of "triangular cooperation" to direct investment. The paper also provides an original focus on Australia-China investment synergies in African settings.

Keywords Developing countries, Sub Saharan Africa, Foreign direct investment policy, Australia-China relations, Triangular cooperation

Paper type Viewpoint

Law and development scholars in particular have long been interested in the potential for foreign direct investment (FDI) laws and policies not only to promote and encourage FDI, but also to do so in a way that maximises the benefits of FDI for the local economy (Asiedu, 2004; World Bank, 2002). This scholarship forms part of a broader body of literature examining which policies and policy reforms are most effective in promoting FDI while being good for the local economy as well (Asiedu, 2002; World Bank, 1999; World Bank, 2002; Gastanaga *et al.*, 1998; Bevan *et al.*, 2004). Asiedu (2002) found that within the unique environment of sub-Saharan Africa (SSA), policy measures which

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might otherwise be thought to be both beneficial to the local economy and to promote FDI, such as infrastructure development, do not actually promote FDI at all. She found that while openness to foreign trade did promote FDI, the marginal benefit from increased openness was less for SSA countries, suggesting that trade liberalisation generates more FDI to non-SSA countries than to SSA countries.

Within the development literature, increased attention has recently turned to the benefits of "triangular cooperation" in the development aid delivery. While there is as yet no universally accepted definition of the term triangular cooperation, it generally embraces partnerships between three parties – a developed country (OECD) donor [government or non-governmental organisation (NGO)], a developing country donor and a beneficiary country (OECD, 2013a, 2013b). While triangular cooperation in aid delivery presents both benefits and challenges, the literature suggests that the benefits (including knowledge sharing, economies of scale and enhanced technology transfer gains per aid dollar spent) generally outweigh the disadvantages (such as high transaction costs) (OECD, 2013a, 2013b; Paris Declaration on Aid Effectiveness, 2005; Accra Agenda for Action, 2008). In this paper, I examine whether the benefits of triangular cooperation highlighted in the development aid literature might also be realised in the area of FDI. To examine this question using concrete examples rather than abstract generalisations, I have chosen Australia as my exemplar developed-nation partner and China as its developing nation co-investor in Africa. The choice of China is based on the fact that it is currently the largest developing nation investor in Africa, and the choice of Australia is based on the uniquely close relationship between the two countries – their geographical proximity, economic connections, social and cultural ties (Mackerras, 2000; Manicom and O'Neil, 2010; Australian Embassy).

Given the great diversity of investment environments found throughout Africa's 54 nations, this paper can only examine a small percentage of the possibilities for Australian-Chinese investment cooperation in Africa. Its main purpose, however, is to highlight the benefits to be gained when Australian and Chinese investors are able to cooperate with African host country partners in ways which make the most of the triangular complementarities and synergies. The fact that these benefits are currently not being realised means that Australia, China and Africa especially are missing out on valuable economic and development opportunities.

While recognising that trade, trade policy and aid are also critical components of development, the focus in this paper is primarily on the private sector investment – investment that may or may not be supported and shaped in some way by government policies. While traditionally the World Bank and the International Monetary Fund (IMF), along with the USA and the European former colonial powers, have been the primary source of funding and development policy guidance, China now presents African countries with an alternative developmental model and partnership. While the availability of an alternative model of development is a good thing, the Chinese model of development is not necessarily suited to African countries. Each country must forge its own model and path of economic development. It is argued in this paper that African government policies are a key instrument for ensuring that the potential development benefits of collaborative, triangular FDI are realised.

Australia and China have experience already in both development cooperation and investment collaboration. On 9 April 2013, (then) Australian Foreign Minister Bob Carr and China's (then) Minister for Commerce Gao Hucheng signed a Memorandum of

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Understanding (MoU) aimed at laying the foundation for enhanced collaboration between Australia and China in the delivery of aid to the Asia-Pacific region (Byfield, 2013). Examples of such collaboration include the Australia-China-PNG project to understand and combat the spread of malaria in Papua New Guinea (OECD, 2013b, p. 33).

This paper recognises that Australia-China-Africa investment partnerships can only succeed in Africa, as elsewhere, if they are the *right* partnerships. Successful partners must not only possess assets, skills and advantages that complement each other but must also be able to communicate and work together. In addition, the project circumstances in terms of profit, risk and timing also need to suit all partners. The nature of political risk involved in construction projects in post-Gaddafi Libya, for example, may well be perceived differently by state-linked Chinese firms, on the one hand, and privately owned Australian firms, on the other. While recognising these limitations, however, this paper argues that Australian and Chinese firms, and many African nations, could benefit from a greater willingness to explore partnership opportunities. I begin by briefly sketching the context of Australian and Chinese investment in Africa.

1. Australian investment in Africa

In 2008, the Australian Government instituted a policy of broadening and deepening its engagement with African countries. Since then, Australia has established diplomatic relations with all African countries, as well as ties (through accreditation) with regional African organisations – the African Union (AU), the Economic Community of West African States, the Southern African Development Community, the East African Community, the Intergovernmental Authority on Development, the International Conference for the Great Lakes Region and the Common Market for Eastern and Southern Africa (DFAT website).

In September 2010, the Australian Government signed an MoU with the AU in which the parties agreed to establish a framework of cooperation in relation to trade and investment, peace and security, achievement of the Millennium Development Goals, agriculture and food security, democracy governance and human rights and climate change (Africa Research Bulletin, 2010). MoUs have also been signed with South Africa, Botswana, Mozambique, Gambia and Nigeria. All of these MoUs contain an Australian commitment to increase investments in Africa (DFAT website; Africa Research Bulletin September-October 2010: 18,827).

The Australian commitment to increase its investments in Africa has not been particularly difficult to fulfil, given Australian capacity for resource sector investment, on the one hand, and Africa's large reserve of untapped resources, on the other. Australian investor's awareness of Africa's potential as an investment destination is particularly high in the minerals and resources sector, which is well aware that 30 per cent of the world's natural resources are contained in 60 per cent of Africa's uncultivated land mass, including 10 per cent of the world's oil reserves (Carr, 2012). As Australia's (then) Foreign Minister noted during the "Africa Down Under" (ADU) Conference in August 2012, by 2012, there were 200 Australian companies involved in 650 minerals and resource-sector projects in 37 African countries. The ADU Conference itself, held annually in Perth since 2003, is the second largest African mining investment conference in the world (Carr, 2012). At the 2013 ADU Conference, Ministers from the

governments of at least 12 African nations gave presentations, along with representatives from over 35 mining corporations (ADU Conference Programme, 2013).

2. China in Africa

Ties between modern China and Africa can be traced back to the Bandung Conference in Indonesia – the first large-scale Asian-African Conference held in 1955. On 30 May 1956, China established the first formal diplomatic relationship in Africa, with Egypt. Ever since, China has been cultivating and maintaining ties with the African continent. By 2010, China had established a formal diplomatic relationship with 49 of the (then) 53 countries on the African continent and, with the exception of the Republic of Guinea-Bissau, has direct investments in 48 of these 49 countries (Cheung *et al.*, 2012, p. 204). Burkina-Faso, Swaziland and Sao Tomé and Principe each maintain diplomatic relations with Taiwan (Republic of China) rather than mainland China, while Gambia severed diplomatic ties with Taiwan on 14 November 2013 but has yet to establish diplomatic relations with the PRC (Drun, 2013). South Sudan, Africa's youngest and 54th nation, established formal diplomatic ties with the PRC on 9 July 2011.

So far as modern, post-Mao trade and investment links are concerned, Africa's importance to China was highlighted in 1996 when Jiang Zemin's African tour established Five Principles of Peaceful Coexistence as essential underpinnings of the China-Africa relationship: reliable friendship, respect for the principle of sovereign equality, non-intervention in domestic affairs, mutually beneficial relations and international cooperation based on the principles of sustainable development. (Tembe and Xu, 2013, p. 72).

Established in 2000 at its first Tri-annual meeting, the China-Africa Cooperation Forum (FOCAC) forms an interface between China and Africa for officials and business leaders through ministerial conferences, senior officials' meetings and the China-Africa Joint Business Council. Its current goals are stressed in the Addis Ababa Action and entails issues related to peace and security, multi-lateral cooperation, economic development and social development (FOCAC website, 2014; Desta, 2009, pp. 23-24).

China's drive for African resources became particularly prominent after the "Going Global" policy was adopted in 2002, under the impetus of which Chinese engagement with Africa has grown almost exponentially. In 2006, China issued a comprehensive policy statement, China's African Policy (www.focac.org/eng/zt/zgdfzzcwj/) to elucidate the principles and scope of its policy in Africa. The document emphasises China's policy of non-interference and the Five Principles of Peaceful Co-existence. By the end of 2008, Chinese investors had set up roughly 1,600 companies in Africa and the cumulative net stock of Chinese investments reached US$7.8 billion, representing 4.2 per cent of China's overall FDI (www.focac.org/eng/zt/zgdfzzcwj/).

From 2009 to 2012, China's direct investment in Africa increased from US$1.44 billion to US$2.52 billion, with an annual growth rate of 20.5 per cent. By the end of 2012, over 2,000 Chinese enterprises had investments in Africa, and China had signed bilateral investment treaties with 32 African countries and established joint economic commission mechanisms with 45 African countries. The China-Africa Development Fund (CADF), a venture capital instrument set up by the China Development Bank, is one of the key tools of the "going out" strategy. First established as one of the eight pledges made at the 2006 FOCAC Beijing summit, the CADF had by the end of 2012, agreed to invest US$2.385 billion in 61 projects in 30 African countries and had already

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invested US$1.806 billion for 53 projects. The CADF has also taken equity shares in some of China's Africa-based Special Economic and Trade Cooperation Zones (SETZs).

Chinese support for overseas SETZ is not limited to Africa. Of 19 overseas SETZ proposals across 15 countries selected to receive official funding by 2011, 7 were in Africa – 5 in 4 SSA countries and 2 in North Africa – not all of which have been successful. Table I provides further details about the seven China-Africa SETZs so far established and the level of operational success achieved by each.

While generalisations cannot be made, given the many diverse contexts and specific projects involving Chinese investment in Africa, a number of commentators have identified several characteristics as common:

- A willingness to work with any state, regardless of its internal politics, in line with China's foreign policy precepts of non-interference in the domestic affairs of other states. In practice, this has meant that China has been able to invest in countries which western firms have shied away from – countries such as Sudan, Somalia and Ghana.
- Utilisation of a low-cost bidding strategy, centred on lower skilled labour and lower managerial costs. The use of low-skilled Chinese labour in projects has been one of the key distinctions from traditional Western/South African multinational corporations (MNCs) in Africa and has caused a considerable amount of controversy in light of high local unemployment rates. This practice has declined in recent years, in response to shifting patterns of Chinese investment, local concerns and the changing demands of African host governments (Huang and Ren, 2013; Flynn, 2013; Bräutigam, 2010; AfDB, 2012).
- The lavishing of diplomatic attention, coupled to support for prestige projects and development assistance (low interest loans and outright grants) to potential recipient countries by the Chinese government.

2.1 Mining

The mineral resources boom which is such a strong determinant of the Australia-China relationship is also affecting many African countries. While generalisations cannot be made, and conditions throughout Africa vary, both China and Australia are investing on the ground in Africa's mining sector. Chinese investment in Africa is, of course, on a much larger scale than Australian investment, but Australia is well positioned to benefit from the Africa resources boom with the technology, skills and learning from its own boom to export.

The potential for Australia-China cooperation in the mining and resources sector has been recognised elsewhere. A KPMG (2011) report, titled Australia & China: Future Partnerships, noted the existence of:

> […] numerous opportunities for both countries to collaborate in projects outside their borders. In Africa-based projects, for example, Australia may provide exploration dollars and mining experience and an entrepreneurial ability to uncover large projects, while China brings to the table the political, financial and construction heft necessary to ensure multi-billion dollar mine and infrastructure projects progress to fruition (p. 52).

One of the more successful joint venture arrangements involving Australian and Chinese mining companies in Africa brings together Chinalco, Rio Tinto, the government of Guinea and the World Bank's International Finance Corporation. The

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Table I. China-Africa SETZs: status as at 2012

Country	Name of SETZ	Partners	Status
Zambia	Chambishi Multi-Facility Economic Zone (Zambia-China Economic and Trade Cooperation Zone)	China Nonferrous Metal Mining (Group) Co (CNMC) has provided all capital. NFC African Mining PLC (15 per cent) is a JV between CNMC (85 per cent) and Zambia Consolidated Copper Mines Ltd, a Zambian Government-owned holding company (15 per cent)	Some buildings completed. Still under construction (http://zccz.cnmc.com.cn)
Ogun, Nigeria	Guangdong Ogun Economic and Trade Cooperation Zone	Chinese consortium based in Guangdong. Nigerian share owned by state government-provided land and 100-year concession in return for shares	Nearing completion. Managed by the Zhongfu Industrial Zone Management Company (http://zfnig.com)
Lagos, Nigeria	Lekki Free Trade Zone	Lekki Worldwide Investments Limited (majority owned by Lagos State Government) (40 per cent); China-African Lekki Investment Ltd. (60 per cent). Lagos state contributed land and 50-year operation franchise. Chinese funding via CADF	Still under construction. Managed by Lekki Free Zone Development Company (www.lfzdc.com). By the mid 2013, 44 enterprises had been registered in the Zone. In total, 91 operating licenses had been issued
Mauritius	Tianlin (now JinFei) Economic and Trade Cooperation Zone	Taiyuan Iron & Steel (Group) Co (50 per cent); Shanxi Coking Coal Group Co (30 per cent); Shanxi Tianli Enterprise Co Ltd (20 per cent)	Implementation began in September 2009; still under construction
Ethiopia	Eastern/Orient Industrial Park, Jiangsu Qiyaan Investment Group	Jiangjiagang, Qiyuan Group (steel); Jianglian and Yangyang Asset Management	Construction began in 2009. A number of factories are operational
Egypt	Tianjin TEDA Suez Economic and Trade Cooperation Zone	Tianjin TEDA (45 per cent); CADF (30 per cent); ECCI (Egyptian banks, TEDA and Suez Canal Authority) (20 per cent); Tianjin Suez International Cooperation Co (5 per cent)	Operational. By the end of 2012, 48 enterprises had entered the zone (http://en.setc-zone.com)
Algeria	Chinese Jiangling Economic and Trade Cooperation Zone	Jiangling Automobile; Jiangxi Coal Corporation Group (including Zhongding International (construction); Groupe Mazouz (local partner)	Agreed in 2008, but cancelled in 2009 after the breakdown of negotiations between the Algerian government and Renault. Also blamed are the alteration of Algeria laws to require Algerian ownership of at least 51 per cent and concerns about the quality of Chinese products

Sources: Bräutigam and Tang (2011), Mthembu-Salter (2009, p. 22), African Economic Outlook (2011, p. 120), Bräutigam (2012); Lekki Free Trade Zone website: www.lfzdc.com; Nigeria Ogun SEZ: Zhongu Industrial Zone Management Company website: http://zfnig.com; Zambia-China Economic Trade and Cooperation Zone website: vhttp://zccz.cnmc.com.cn; Egypt Suez TEDA cooperative trade and economic zone website: http://en.setc-zone.com

project followed extensive discussions between the two mining giants as to how they could best complement each other. The partnership at Simandou in southeast Guinea has secured significant investment for Rio Tinto and has reportedly helped to cut procurement and construction costs (China Africa News, 2013; Rio Tinto Simandou Homepage, 2014; Flynn, 2014).

In Gabon, the one billion tonne Bélinga iron ore deposit was originally conceived in 2006 as a project built by the China Machinery Engineering Corporation (CMEC) and financed by China's Export Import Bank (Eximbank). A May 2008 agreement to build and operate the mine included undertakings to construct a hydropower station, a port and a 500-kilometre railway. In 2010, the Gabonese Government initiated a review of the Bélinga iron ore deposit in light of the very slow progress in the mine's development, and by February 2012, the Gabonese Government had cancelled CMEC's rights to work at Bélinga and supposedly handed the project over to Australia's BHP Billiton Ltd (BHP) (Africa-Asia Confidential, 2012; *Sydney Morning Herald*, 2012). Just over a year later, however, BHP had pulled out of Gabon altogether and closed its office in Libreville (Els, 2013; Moneyweb, 2013). In fact, CMEC transferred all of its 66 per cent shareholding in Comibel (Compagnie Minière de Belinga – the operator of the Belinga mine) to the Gabonese Government in December 2013 (CMEC, 2013; Gide and Nouel, 2014).

The Guinea and Gabonese Governments are amongst a number of African governments seeking to maintain greater control over the management of local natural resources, especially mineral wealth. A new mining code passed by the Gabonese Senate in May 2014 provides that the Gabonese state has the right, free of charge, to be a shareholder in every company holding a mining permit and that stake cannot be diluted. When in early 2014, the Gabonese Government began holding new talks with foreign mining firms seeking investment to develop the Bélinga iron ore deposit, it made it clear that Societe Equatoriale des Mines (SEM, created in 2011 by Presidential decree) will automatically retain a minimum 10 per cent stake in the Bélinga project under the new mining code.

A joint-venture approach from the beginning, bringing CMEC, BHP and a Gabonese partner together, may have prevented the delays and shortcomings that led to the abandonment of the Belinga project. It remains to be seen whether the new mining code and new policies in relation to the management of mineral resources will help to ensure a greater level of local involvement in decision-making. South Africa has probably gone further than any other African country in regulating for local involvement in the management of local resources. The revised Mining Charter of 2010 mandates that a minimum of 26 per cent of mining companies be transferred to the "meaningful economic participation" of historically disadvantaged South Africans by 2014. But the 2010 Charter does not just seek to mandate ownership levels. It also provides greater clarity in respect of set targets for diversity, equitable representation at the junior, middle and senior management levels, skills development, measures to improve the standard of housing and living conditions for mine workers, environmental management and health and safety standards. It also introduces the concept of a "social development fund" into which multinational suppliers of capital goods must contribute a minimum of 0.5 per cent of their annual income generated from local mining companies (Tapula, 2012).

South African Government "mineral beneficiation" policies, coupled with sometimes complex environmental and labour laws, have helped to ensure that China's mining

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investments in South Africa are noticeably different from investments in other African countries. Chinese companies have been much more inclined to establish joint-venture operations, typically not only with local South African mining companies but also with developed-nation mining MNCs. Examples include the Zilin (China) and Aquarius Platinum (SA) joint venture, the Minmetals Development Company (China) and Palabora Mining Company (SA) joint venture, the Jiuquan Iron and Steel Corporation (China) and International Ferro Metals (SA) joint venture and the joint venture between East Asia Metals (China) and the Limpopo Economic Development Enterprise, which is the largest operation involving a Chinese partner and operates as ASA Metals at the Dilokong Chrome mine. ASA Metals also operates an onsite ferrochrome smelter, facilitating value-adding and employment opportunities within the South African economy (Tapula, 2013).

Australian mining companies are seeking to diversify their production base away from Australia in light of increasing costs (Morgan, 2012). They also have the technology to access Africa's deeper mineral reserves using sophisticated mining techniques developed for Australian mining conditions with similar geology type. Australia has learnt from decades of natural resource development and has a mature and widely respected mining technology expertise. For Australian mining companies, key benefits of a Chinese partnership are access to Chinese financial resources and cheaper procurement and construction costs. Australian companies could both learn and benefit from the way in which major Chinese mining companies are building vertical and horizontal links into the local African economy. Chinese mining companies are acquiring upstream assets to secure resources and commodities. This can be seen in Sinopec's large investments in Sudan and Angola's oil sector (Sinopec, 2010; *Wall Street Journal* 24 March 2013). At the same time, Chinese MNCs are also expanding into downstream activities such as China National Offshore Oil Corporations' (CNOOC) movement into retail, petrochemicals and power generation in Morocco, Nigeria and Gabon (Alden and Davies, 2006a, 2006b).

A strategy of building connections at senior leadership levels has given Chinese firms a competitive edge in many cases. For example, the state-owned Indian oil company, the Oil and Natural Gas Corporation (ONGL), thought it had secured a deal with Shell to assume the lease for Angola's Block 18, but a last-minute deal by Sonangol gave the rights to Sinopec in 2004. Crucial to the turnaround was the Chinese Government's willingness to provide a $2 billion loan to the Angolan Government, freeing it from reliance upon the IMF funding and from IMF conditionalities attached to that funding – conditions that the Angolan Government has characterised as "humiliating" (Tembe and Xu, 2013, p. 66).

Rapidly increasing Chinese involvement in Africa has given rise to fears that China is locking up African mineral resources and that cheap Chinese loans to African Governments may undermine efforts towards democratic and accountable administrations and risk-driving countries back into debt servitude. Yet it should also be remembered that nearly all African countries, not just the resource-rich nations, have benefited from Chinese loans. Moreover, only 30.6 per cent of total Chinese investment in Africa is in the mining sector, and Chinese oil companies are actually minor players in all African countries (except Sudan) when compared to large Western multinationals like Exxon, Mobile, Shell or Chevron (State Council White Paper, 2013; Dubois, 2011; Bräutigam, 2010). Moreover, African Governments from South Africa, to Gabon, to

South Sudan are now implementing new policies designed to ensure greater local involvement in the management of mining operations. South Sudan's new *Petroleum Act* of 2012, for example, introduced a regime that, on paper at least, appears very different to the regime which Chinese firm CNPC had previously operated under in Sudan, including mandatory local content provisions and provisions designed to promote transparency and accountability in the mining sector (Patey, 2014, pp. 229-237). My argument in this paper is that the benefits of increased local involvement in the form of foreign-local partnerships might be further enhanced by tripartite partnerships between developed country, developing country and local firms.

An important contribution made by the Australian partner to a cooperative mining venture in Africa is managerial expertise (i.e. the Australian partner's accumulated institutional memories of good management). In a two-way partnership, the Chinese side may well absorb such knowledge quickly and possibly then even more quickly cut out the Australian partner. In other words, while comparative advantages may present mutual opportunities for exploitation, it may well be the Chinese side which eventually does most of the exploiting. Where a third party – the local African partner – is involved on a permanent basis, this can help to ensure that the benefits of improved managerial practices are retained within the local economy.

Australia is also making one other important long-term contribution to the building of Africa's mining infrastructure – the design and implementation of governance frameworks and mining legislation. For example, Australia has provided a technical adviser to the Government of Liberia to help establish a Natural Resource Tax Unit within the Ministry of Finance. Australia has also supported the Ministry of Petroleum and Mining of the world's newest country – South Sudan – in drafting a new mining law, as well as helping in the assessment of mineral taxation administration in Cameroon, Namibia and Uganda (partnering with the World Bank). Since 2010, study tours and conferences hosted by the International Mining Centre for Development in Perth have led to a number of improvements to legislation in a number of African countries, including amendments to the Mining Act of Namibia to ensure greater protection of local communities; amendments to the Zambian Mines and Minerals Act to include regulations for preferring local procurement and local content; and the establishment of links between the Mozambican Railways and Queensland Rail to explore business opportunities including the design of a new railway line for coal transportation (Carr, 2012). As FDI-related legislation becomes more sophisticated, the benefits of tripartite cooperation could be recognised in the mining investment laws, as well as in taxation regimes, labour laws and environmental regulations.

2.2 Energy

Access to reliable and affordable electricity is critical for poverty alleviation and the improvement of livelihoods throughout Africa. Yet insufficient investments, slow adaptation of energy efficiency measures and renewable energy sources, climate change and the damage caused by war and conflict have resulted in very low rates of access to electricity and irregular supply for those with access, throughout the African subcontinent. Only around 25 per cent of inhabitants of the subcontinent are plugged into the grid, with as few as 10 per cent of rural populations in SSA having access to grid electricity (Oyedepo, 2012).

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Apart from the role it plays in extracting energy-producing resources from African land and territorial seas, China's role in Africa's energy sector is twofold. First, it involves construction of large hydropower stations, most commonly as a means of payment and in return for a steady supply of resources. Chinese resource-backed power-infrastructure projects in Africa include the Congo River dam, backed by crude oil guarantees; the El Gaili Power Plant in Sudan, with oil serving as collateral; the Papalanto gas turbine power plant in Nigeria, backed by crude oil guarantees; the Souapiti dam project in Guinea, linked to bauxite mining revenues; the thermal power station in Dande, Zimbabwe, backed by chromium guarantees; and the Bui dam in Ghana, partly repaid in cocoa exports. In Ghana, a US company's discovery of commercial quantities of oil in June 2007 further boosted investor interest in that country, mostly from America but also from China. By 2010, the Ghanaian Government had signed a total of $13 billion in agreements with the China Development Bank and China Exim Bank, including a $3 billion facility for the Western Corridor gas commercialisation project, a $9 billion deal for road, railway and dam projects and a $250 million deal for rehabilitation of the Kpong water works (Amanor, 2013).

Resource-backed infrastructure deals are only one of several ways in which China is engaged in Africa. Indeed, according to one Nigerian diplomat, "The Chinese are trying to get involved in every sector of our economy. If you look at the West, its oil, oil, oil and nothing else" (Bräutigam, 2009, p. 279). Thus, for example, the second part of China's energy story in Africa is an emerging pattern of Chinese involvement in renewable energy equipment manufacturing in Africa. Recent years have seen not only Chinese companies expanding their exports of comparatively cheap renewable energy equipment (wind turbines and solar water heaters) to Africa countries but also they are increasingly investing in local manufacturing capabilities as well as the promotion of renewable energy capacity development (Conrad *et al.*, 2011).

With an average quantity of 5-6 kilowatts of power from the sun per square metre per day, Africa has a vast potential for producing solar energy, yet currently accounts for only a small percentage of global solar energy production. China is home to the world's biggest manufacturer of solar energy PV panels and is a world leader in terms of developing and installing solar energy capacity. In 2007, Beijing Tianpu Xianxing Enterprises, a specialist in the development, design and manufacturing of solar energy projects, and Electrogen Technologies, the local Kenyan partner, agreed to build East Africa's first solar panel factory. Some 200,000-350,000 photovoltaic systems were in use in rural Kenya in late 2008, and it was hoped that the new factory would both generate local employment and bring the cost of panels down by 40 per cent. Construction of the factory, originally planned to occur between October 2007 and February 2008, was stalled by the outbreak of country-wide violence over disputed presidential election results (Disenyana, 2009, p. 26). And then, the deal appears to have collapsed altogether in 2009 because the desired level of market demand simply failed to materialise. It cannot be known whether the addition of Australian involvement and expertise (e.g. in design, management/marketing/training and/or rural service distribution) might have made a difference to the success of the enterprise. Fortunately, Chinese companies continue to explore renewable energy manufacturing opportunities in African countries. Solar panel manufacturer Yingli, for example, has been searching for opportunities to build a manufacturing plant in South Africa, and Longyuan has

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plans to build a modern blade and turbine manufacturing facility in South Africa (Conrad *et al.*, 2011).

2.3 Agriculture

SSA is the most food-insecure region in the world, with one in three people suffering from chronic hunger. Low food-crop productivity, rising food prices, increased fuel costs and the global recession have worsened food and nutrition security outcomes. Africa has 40 per cent of the world's arable land but produces only 9 per cent of the world's agricultural output (October 2013, mag, Mining and agriculture: feeding African growth).

China's increasing engagement with African agriculture – through aid, trade and investments throughout the continent – is now a well-documented trend (Buckley, 2012; State Council White Paper, 2013). While strategically important, by the end of 2011, only 2.5 per cent of total Chinese direct investment in Africa was in the agricultural sector (including forestry, animal husbandry and fishing) (State Council White Paper, 2013; Buckley, 2012). Contrary to media reports focussing on Chinese "land grabs" for export of food crops back to China, the vast majority of Chinese agricultural investments globally are actually in Asia and Latin America, and the evidence suggests that China is not in fact engaged in large-scale African farming for export (Buckley, 2012; Bräutigam and Tang, 2011), with only a small number of Chinese agricultural investments in Africa covering more than 20,000 hectares (Buckley, 2012).

Sharing its own experiences in modernising and liberalising a rural economy has been a consistent theme in China's African engagement. Chinese leaders emphasise the "South-South" nature of the collaboration, based on reciprocity and "mutual benefits", with a particular focus on the need to strengthen African food security. At the same time, China continues to enhance political relationships and soft power, while also boosting commercial opportunities for national firms and strengthening China's own resource security. China's engagement in African agriculture is also influenced by China's own domestic circumstances and priorities, as well as by policy changes within African countries and global economic trends.

From 2009 to 2012, China's direct investment in African agriculture grew from US$30 million to US$82.47 million, a 175 per cent increase (State Council White Paper, 2013, Part III). Chinese-invested projects include a 300-hectare experimental paddy field project in Mozambique aimed at increasing local rice crop production and a joint project with the African Development Bank to enhance local cotton production and processing capabilities in Malawi, Mozambique and Zambia. Since 2006, China has also helped set up 15 agricultural demonstration centres in Rwanda, the Republic of Congo, Mozambique and elsewhere and is planning to establish another seven (State Council White Paper, 2013). In 2008, China contributed $30 million to the UNFAO to set up a trust fund. This fund supports South-South cooperation between China and African countries under the framework of the UNFAO Special Programme for Food Security (MOFCOM, 2013).

Lila Buckley has examined closely the diverse nature of Chinese involvement in African agriculture. She notes that thus far China has generally taken the lead in agricultural project design and implementation with only passive participation from African partners. This has led to frustration on both sides, project failures and unexpected consequences on the ground (Buckley, 2012). The Chinese tendency to focus

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consultation at politically elite levels of local communities also means that benefits from investment schemes also tend to accrue to the elite, rather than being widespread. Chinese enterprises, backed by Chinese Government funding, have been active in building links into local agricultural production. The approach, however, has tended to be one of "sending senior agricultural experts and technicians to teach the locals managerial experience and practical techniques in agricultural production" (State Council White Paper, 2013), rather than of studying local conditions and understanding local ambitions. Moreover, not everyone agrees that Chinese technology is appropriate for Africa or that China's development experience can be adapted to Africa's benefit. At the same time, however, there is recognition amongst researchers and some practitioners that emerging trilateral relationships could contain the potential for addressing problems and overcoming structural and other barriers to success, as well as increasing transparency (African Economic Outlook, 2011, p. 114). It is precisely as a part of such trilateral relationships that Australia could contribute most.

An important contribution which Australia could make is providing the research needed to more fully understand the local physical and social environments within which African agriculture takes place. As one agricultural policy adviser interviewed by Buckley pointed out, there is a need to do research first and then projects. Project officers typically neither have budgets to do preliminary agricultural, economic and social impact surveys to understand what local people need or want nor do they have funding to work with local people. Australian and Chinese researchers could help African countries do cost-benefit analyses for specific projects to overcome the constraints of production. For example, an irrigation project may not bring local economic benefits unless combined with improved transportation infrastructure of the right kind (Buckley, 2012, p. 4, 18; Alden, 2007).

Australia is a world leader in agri-science research. Australia, like China, has invested a considerable amount of aid money in African agriculture, backed by a purported concern to enhance African food security. For example, the Australian Centre for International Agricultural Research (ACIAR) is assisting with delivering a major component (approximately A$20 million over four years) of the Australian Government's enhanced engagement with Africa through the Overseas Development Assistance – Food Security through Rural Development initiative. Australian support (of A$100 million over four years) is aligned with the AU's Comprehensive Africa Agriculture Development Programme and Australia's expertise in rain-fed mixed farming systems. The research programme is concentrated in the eastern-central and southern regions of SSA regions (ACIAR website).

In 2013, the Australian Crawford Fund annual conference on food security was held not in Canberra as previously, but in Perth to combine with the Africa Australia Research Forum and the highly successful ADU Conference. The focus of the event was on the interaction between mining, agriculture and development. Delivering a keynote address, Dr Florence Chenoweth, Liberia's Minister for Agriculture, called for a massive reinvestment in agriculture and agricultural research in Africa as an effective way to combat poverty and empower women. The conference then went on to explore ways in which mining and agriculture are directly linked through agriculture's dependence on mined inputs (such as potassium and phosphorus fertilising supplements) and when both compete for access to the same land and/or water resources and/or workers. Displacement and resettlement of farmers from mining areas has caused conflict when

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comparable land could not be purchased, or share-croppers and farmers without land title were excluded. In Africa, the declining viability of agriculture has led to a large decrease in agrarian activities and increased mining activities. The discovery of large mineral deposits and the perceived income opportunities they represent can also lead to abandonment of farmland. Perhaps the most destructive impacts arise from the disruptive effects of the new political and economic linkages created when a large mining project gets underway, along with the breaking of existing rural connections. This disruption often results in new inequalities that can create resentments and social unrest (Chenoweth, 2013).

Mining and agriculture are also linked when mining firms improve infrastructure so as to support agricultural development. For example, new roads constructed for mining operations can decrease the transport time and transport costs for farmers in getting their produce to markets. Local processing of agricultural goods may also be enhanced by improved access to energy and sanitation, especially where mining companies are willing to work with scientists and local farmers to decrease the environmental impacts of mining operations and/or improve local farming practices and agricultural productivity. The outcomes of this interaction appear mixed. There is evidence that agriculture is growing in a few areas as a result of mining, but declining in many others, depending on local circumstances – mostly related to the declining viability of agriculture.

In Mozambique, the Beira Agricultural Growth Corridor (BAGC), based around Tete Province, a major source of coal, has been specifically created to identify and promote linkages between the nascent mining sector and the local agricultural sector. However, the development of open-pit coal mines, access roads and related infrastructure by Rio Tinto and Brazilian firm Vale has displaced thousands of people, mostly subsistence farmers, from local communities. Vale has resettled 1,365 people, while Rio Tinto plans to resettle a further 679. Current discussions centre on how the mines can better meet their social responsibilities by providing better housing and social amenities to displaced farming communities.

What is missing from the debate is how mines can contribute to longer-term regional development through the development of forward and backward linkages with agriculture. Currently, the demand for food by mines is met by imports from neighbouring countries, while a number of supply-related constraints mean that local farmers remain unable to meet mining project catering requirements of quantity and quality. To overcome these constraints, a number of things are needed. First, regional food logistics hubs are needed to aggregate volume in the storage (including cold storage) and transport of produce. The BAGC could provide such hubs along its transport corridor – a well-developed road and rail network linking Zambia, Malawi, Zimbabwe and Mozambique to the port of Beira. Local supply opportunities in the region (start-ups, early-stage agri-business, small-scale producers and large-scale producers) need to be identified and links built. Examples include the deals between local pork and poultry producers and mining operator Rio Tinto in BAGC which have also led to supply chain developments elsewhere. These links need to be supported and maintained by local farmer organisations and other mechanisms for capacity building and production improvements.

Suppliers also need to be supported by locally accessible financial operators able to provide affordable production loans and working capital – in the same way that Chinese

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investors in cash crop cultivation in Zimbabwe are already active in providing interest-free loans to local farmer households. Finally, mining operators (and other major private-sector purchasers) need to be sensitive to the timing needs of local agricultural suppliers, retailers and caterers in a way which facilitates cash flow smoothing throughout the supply chain (Zhou, 2013).

Australia, the country that invented the stump-jump plough, also remains a world leader in developing cheap and accessible mechanisms for improving agricultural productivity and water-use efficiency. But the country is fast losing this advantage and needs to reinvest in agricultural research if it is serious about being a part of the African development story. A KPMG (2013) research paper titled *Demystifying Chinese Investment in Australian Agribusiness* noted the urgent need for Australia to educate more young Australians for agricultural careers. At the moment, Australia is far from filling even its own demand for agri-science graduates. Experts predict that agriculture will soon require 6,000 tertiary qualified graduates per year – but in 2011, New South Wales universities produced only 311. The KPMG report argues that China can provide university-qualified, skilled agri-science graduates to supplement local talent in Australia during peak seasonal demand periods. But surely, Australia has the educational capacity to train enough agri-science graduates to fulfil its own needs – even if a large proportion of the student body comes from China, Africa or elsewhere. In other words, if the problem is one of scale – with the Australian market too small to provide full-time employment for the number of graduates needed at periods of peak demand – then the key surely is to export agri-science education, so that Australian graduates are capable of operating in diverse environments, depending on need.

An important part of Australia's value-adding edge in agriculture comes from investments in agricultural science, and its implementation need not always be on Australian soil for Australia to benefit. Take, for example, the "pig poo" project, led by Australia's Cooperative Research Centre for Contamination Assessment and Remediation of the Environment (CRC CARE), which has HLM Asia Group Ltd, a financial consulting and investment firm based in Hong Kong, as one of its key partners. The joint project involves both Australian and Chinese scientists and is managed on the ground in China from Huazhong University of Science and Technology in China's Wuhan Province (CRC CARE, *Annual Report* 2010-11). The project uses synergies between Australian and Chinese comparative advantages, including Huazhong University engineering science and PhD student involvement, Australian science and technology and a Chinese farmer willing to provide an experimental demonstration site. The essence of the project is the development of a two-step, underground anaerobic bioreactor for treating piggery waste and turning it into biogas. The project, if successfully expanded to cost-recovery scale, would bring income to the Australian CRC Care partnership and potentially enormous benefits in terms of environmental conservation, energy conservation and a sustainable pork industry in China and other Asian countries as well (Blanch, 2013).

2.4 Education and research

While education in international relations is usually considered in terms of trade in services, longer-term and more deeply entrenched educational linkages inevitably involve investments, most notably in educational infrastructure such as campus

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facilities and research laboratories. It is in this longer-term sense that educational linkages will be considered here.

With 44 per cent of its population under age 15 in 2006, SSA is the youngest region of the world. The median age in Africa in 2012 was 20 years (as compared to 30 in Asia and 40 in Europe), and most countries in Africa are projected to have more working age adults per child in 2030 than they did in 2006. A large workforce with fewer children to support creates a window of opportunity to save money on health care and other social services, improve the quality of education and invest more in technology and skills to strengthen the economy. Some economists call this window of opportunity the "demographic dividend" (or "bonus"). The window eventually closes when the workforce ages and relatively fewer workers have to support increasing numbers of older people. But the period of the potential bonus can last for several decades, as demonstrated by East Asia's "economic miracle" (Ashford, 2007).

While many African countries will experience marked growth in the working-age share of the population between 2005 and 2025, not all have the strong institutions needed to take advantage of this potential bonus. It is here that Australian institutions and Australian know-how can be of benefit – first in the provision of educational services and, second, in the provision of regulatory advice and support. This paper argues that Australia's contribution to African education, skills enhancement and governance strengthening could be further enhanced by Chinese partnership and cooperation.

Given the comparative youth of Africa's population, the continent is characterised by a rapidly growing demand for scarce educational resources. Between 1985 and 2002, the number of tertiary students in Africa increased by 3.6 times, from 800,000 to about 3 million – an average annual growth of about 15 per cent (Materu, 2007, p. 9). In 2011, Africa had about one billion people but only some 200 public universities. With public institutions not able to keep up with rapidly growing demand, the number of private-investment educational institutions has grown rapidly. Between 1991 and 1999, nearly 65 private institutions were established in SSA, and by 2004, there were over 100 private institutions in Africa, including foreign-invested institutions, such as the Monash South Africa campus, registered in 2001 (Varghese, 2006). While private education in Africa has widened access to and improved the overall quality of higher education, neither has it served to reduce the costs of higher education in Africa nor has private education assisted with the retention of skilled human capital in African countries. It is precisely in these two areas that Australia and China could contribute through strategic cooperative investments in education, training and recruitment services.

Both China and Australia have indicated their willingness to provide further and continuing support for African universities and students. The China-Africa strategic partnership, including a renewed emphasis on higher education activity, was announced at the fifth Ministerial Conference of the FOCAC held in Beijing in July 2012. By 2012, China had established 29 Confucius Institutes in 22 African countries, while 20 pairs of leading Chinese and African universities have entered into cooperation under the 20 + 20 Cooperation Plan for Chinese and African Institutions of Higher Education. Under the Beijing Action Plan of FOCAC (2013-2015), China will provide US$2 million annually under the framework of the UNESCO trust fund to support education development programmes in Africa, in particular in higher education. Chinese training

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courses offered throughout Africa reportedly involved a total of 27,318 officials and technicians from 2010 to 2012 and encompassed a wide variety of scientific, technical and social science fields (State Council White Paper, 2013).

Scientific research, technology services and geological prospecting together comprise 4.1 per cent of total Chinese investment in Africa as at the end of 2011 – nearly twice as much as Chinese investment in agriculture (2.5 per cent). In 2009, China launched the China-Africa Science and Technology Partnership Plan, aimed at promoting technology transfer to Africa and research exchanges. By the end of 2012, China has cooperated with African countries on 115 joint research and technology demonstration projects including projects relating to cashew pest control technology and resources satellite receiving stations (State Council White Paper, 2013).

African science and technology researchers conduct postdoctoral research in China and benefit from Chinese donations of research equipment. In December 2011, the Chinese government launched the Science and Technology Action for African People's Livelihood and declared that it would help build a "mobile and modular general clinic" and a "demonstration center for scientific and technological cooperation in gastroenterology" to each African FOCAC member country (State Council White Paper, 2013). Existing projects already include the China-Egypt research base for agro-technologies, a fisheries research agri-tech demonstration centre in Uganda, a water-supply project in Liberia and hydropower and solar energy projects in the Central African Republic (Nordling, 2011).

Meanwhile, an expanded Australia-Africa Universities Network (AAUN) was launched in Canberra in July 2012. The network now consists of a consortium of 17 Australian universities and research institutes and about 30 African institutions. The AAUN focuses on fostering interdisciplinary research and teaching and boosting collaboration in priority areas, such as education, health, food security, public sector reform, governance and mining (http://aaun.edu.au/).

Australia could play a valuable role in promoting educational links between China and Africa. Australian universities have established campuses in both Africa and in China, and Australian scientists, engineers, consultants and academics are active both in China and throughout the African continent. There is also an expanding presence of Chinese science and technology and other educational and research institutions throughout Africa. Joint-venture projects between Australian and Chinese (and, where possible, African) partners offer a potential way of enhancing the overall benefits of Australian/Chinese educational cooperation with Africa, as well as enhancing the Australia-China relationship itself.

Australia, through localised research development training programmes, could help Chinese investors avoid this tendency to retain control by facilitating technology transfer in ways that help local economies integrate into the global value chain (Desta, 2009, p. 27). In particular, Australia could assist with the building of the regulatory infrastructure (legislation and institutions) needed to facilitate such technology transfers.

2.5 Finance

The importance of finance for building linkages between mining and agriculture in Africa was noted above. By the end of 2011, 19.5 per cent of total Chinese direct investment in Africa was in the finance sector. By the end of 2012, China's direct

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investment in Africa's financial sector had reached US$3.87 billion, accounting for 17.8 per cent of its total investment volume in Africa (State Council White Paper, 2013). The Bank of China has a branch in Lusaka, Zambia and another in Johannesburg, where the China Construction Bank also has a branch. Industrial and Commercial Bank of China, China's largest bank by assets, became the biggest shareholder in South Africa's Standard Bank when it purchased a 20 per cent share in 2007 (Rabinovitch and Davies, 2013). To some extent, these banks are able to make up for the lack of sufficient development funds available to local enterprises.

Economic progress in Africa is being impeded by the under-development of the finance sector and the consequent inability to raise finance. There are only two large stock exchanges – in Johannesburg and Egypt. The other stock exchanges hold virtually no capital, and there is a lack of willing investors to purchase stock. There is an urgent need to support finance market institutions in Africa. African Governments need to consider how best to manage the entry of foreign financial expertise to strengthen the local financial sector, rather than compete with it. Since the late 1990s and especially since its entry to the WTO in 2001, China has faced precisely this challenge, and African nations could learn from its experience in financial sector liberalisation over the past two decades (Laurenceson, 2005; Laurenceson and Qin, 2008). Australian expertise in the design and implementation of good banking and prudential infrastructure (legislation and regulatory institutions) could complement this learning. African nations themselves have experience in the creation of micro-finance networks of a kind that could well prove an important building block for modern financial systems (Basu *et al.*, 2004).

Conclusion

Both Australia and China have recently issued major reports into their respective relationships with African nations. In neither case, however, have the implications of and for African relations of Australian-China relations been considered. The 2011 Australian parliamentary inquiry into Australia's relations with African countries neither makes reference to the Australia-China relationship nor does the 2013 Chinese State-Council White-Paper on China-African trade and investment relations. This paper hopefully provides a beginning for filling that gap. It argues that China, Australia and Africa itself would all benefit from paying more attention to the way in which the synergies between them could be brought together. Well-considered and planned tripartite relationships would not only be more likely to succeed in the short term, but also be more likely to maintain and continue generating benefits in the long term as well.

More important, however, is the need for African countries to begin thinking about foreign investment and related laws and policies as a means for maximising and retaining the local benefits of foreign investment and not simply a tool for maximising FDI inflows. More research is needed into the question of what levels of local ownership and participation serve to maximise the benefits of mining-related and other FDI – benefits which range from capital and technology transfer, infrastructure development and employment opportunities, to increased exposure to foreign cultures and cuisines – while minimising the harmful effects. A related question is whether or not large Chinese investments, particularly in the mining sector, perform more sustainably when operated in joint ventures with western firms. What kind of regulatory mechanisms most effectively maximise the benefits of developing country-developed country synergies

and local participation? A related question is what kind of pan-African cooperation to harmonise rules and standards affecting foreign investors might assist nations to minimise the harmful effects of regulatory competition when seeking to attract foreign investment? Both of these questions open up areas where further research is needed.

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