EU’s and Chinese raw materials policies in Africa: converging trends?

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Introduction

China’s unprecedented rise as economic (super-)power over the last decades has rattled the structure of raw material production and trade globally. Today, China is not only one of the major commodity producers, but grew since the 2000s to the most important commodity importer. Beyond energy commodities (oil, coal and gas) this is particularly true for minerals and metals as China is responsible for more than 80% of the increase in total minerals import from 2006 to 2015. In 2015, China accounted for one fifth of global minerals trade, more than the EU and the USA combined with shares of 9.8% and 7.1%, respectively (UN Comtrade).

China is sourcing an increasing share of its external commodity demand from resource-rich countries in Sub-Saharan Africa (SSA)[1]. Over the last ten years, China became one of the most important export destinations for most SSA countries and surpassed the EU as most important buyer of SSA minerals in 2010. In 2015, China took in 35% of minerals exports and 21% of crude oil exports from SSA countries. Consequently, the EU’s position deteriorated particularly in the African minerals markets over the past years for the benefit of China’s demand for commodities. The EU’s Raw Material Initiative (RMI) could therefore be interpreted as an answer to China’s activities in the national and international commodity markets, leading various scholars to name the alleged race for raw materials the “new scramble for Africa” (Carmody 2011).

The approaches to access natural resources in SSA and other regions worldwide differ significantly between China and the EU – on a rhetorical and on a practical level. China’s position is rhetorically embedded within traditional South-South cooperation with strong intergovernmental relations, highlighting the key features of ‘mutual benefit’ and ‘non-interference’ in the relations. In this context, large attention has been drawn on Chinese actions in SSA raw material sectors combining foreign policy, development aid, infrastructure projects and state-owned enterprises (SOEs). The EU, by contrast, promotes an economically liberal access to raw materials based on a level playing field according to market principles as well as transparency and good governance. Importantly, this includes the active use of EU trade policy, in particular the inclusion of rules in bilateral and multilateral agreements to achieve access to raw materials

In this article, the two approaches are presented by focusing on mineral commodities, before we outline the major differences and potential converging trends. Finally, the consequences for SSA countries are highlighted.

EU: Focusing on undistorted access

Only a decade ago, the EU was the main importer of minerals on a global level. With the financial crisis and the rise of East-Asian economies, this position was taken over by

China in 2008. Nevertheless, raw materials are the basis of various value chains in in the EU. The European Commission (EC) estimates that 30 million people are employed in the EU industries which largely depend on the secure and affordable supply of raw materials from non-EU countries (EC 2012), of which SSA countries are the most important source (UN Comtrade 2017). Even though the supply of raw materials is in the competence of the member states, the central role of the common EU trade and investment policy lifted the topic up to the EU level.

In November 2008, the EC launched its so-called Raw Materials Initiative (RMI)[2] under the German presidency (EC 2008). The initiative shows that the EC considered a new strategy necessary to tackle the challenges in accessing raw materials and to meet new competition, in particular from China. In the field of external policies , the RMI emphasises various policy areas that should secure access to raw materials, such as trade and regulatory policy, raw materials diplomacy as well as development policy (see for more details Küblböck 2013a). Consequently, the RMI is represented in the EU trade strategy 'Trade, Growth and World Affairs" (EC 2010) which states that "sustainable and undistorted supply of raw materials is of strategic importance for the competitiveness of the EU economy" and that the EU will "use current trade rules to the maximum" to pursue this goal (EC 2010: 8).[3] The formulation of the RMI was preceded by a heavy advocacy effort of the European – and in particular the German – metal industry, which aimed at using the German EU presidency to put the issue high on the agenda (CEO 2011).

In its trade and investment policy, the EU seeks to implement the RMI in bilateral and regional trade and investment agreements as well as on a multilateral level. The focus is on reduction of export restrictions such as export duties by implementing strict disciplines, as shown for the example of the Economic Partnership Agreements (EPAs) below. It further tries to tackle trade barriers through dialogue and 'resource diplomacy' and by using tools such as WTO dispute settlements. In recent years, a broad range of trade policy instruments were pursued to remove trade barriers. Examples include 'peer group pressure' via WTO Trade Policy Reviews, WTO complaints (e.g. against China's export restriction on rare earths) as well as horizontal bans on existing and future export taxes in different bilateral trade agreements (EC 2013).[4]

The EU furthermore uses different instruments of its development policy in order to promote access to raw materials (EC 2013). In this area, the EU concentrates on good governance[5], the promotion of an investor-friendly investment climate (e.g. transparency, effective institutions, property rights) and a sustainable raw material management, including the organisation of geological knowledge. With regard to African countries, the Joint Africa-EU Strategy is supposed to reinforce dialogues with strategic partners of the EU. The European Investment Bank (EIB) serves as an important player in the implementation of the RMI by being a large lender to extractive industries.[6] In particular economic and political powerful EU member states also formulate their own strategic agenda in addition to efforts to secure raw material access on the institutional level of the EU.

One current example where the EU tries to promote access to raw materials along the lines of the RMI are the EPAs, which are regional trade agreements between the EU and the African, Caribbean and Pacific Group of Countries (ACP). The trade relationship between the EU and the global periphery, and in particular Africa, has to be understood in the context of the historically grown EU's relationship to its ex-colonies (Grumiller et al. 2016). The EU had granted the ACP-countries development aid as well as non-reciprocal preferential (duty- and quota-free for the most part) market access under the so called

Lomé-Conventions. Instruments to secure access to raw materials such as long term loans and technical assistance to develop mining capacities but also a stabilization program for mineral exports (Sysmin) were a part of these agreements (Küblböck 2017).

The Cotonou-agreement of 2000 foresaw an end to the trade preferences in light of WTO-compatibility rules. Seven regional EPAs between the EU and the ACP-countries were foreseen to enter into force by the beginning of 2008 (Grumiller et al. 2016; Grumiller et al. 2018). Until today (end of 2017), only the CARIFORUM- and the SADC-EPA have been concluded. The other agreements are still pending, due to persisting controversies regarding their potential developmental impact. However, several countries have signed or ratified provisional Interim-EPAs (IEPA). The EU has pressured and incentivized the partner states to conclude an EPA by threatening to reform the preferential market access regimes for developing countries as well as by including a development chapter in the EPAs. The development chapters do not offer additional funds, but development aid recipients might fear to lose their share relative to EPA partner states by not signing an EPA (ibid.).

The EPA negotiation process has been accompanied by heavy criticism of various governments, civil society organizations and the academia (e.g. Bilal/Stevens 2009) even though the EC continued to emphasize the developmental character of the EPAs (EC 2017a). A study conducted by the Austrian Foundation for Development Research (ÖFSE) finds that the EPAs are likely to foster the asymmetrical trade relationship between the EU and the EPA partner states (Grumiller et al. 2018). A tendency for the exportation of raw materials to the EU and the importation of processed goods from the EU as well as a positive trade balance for the EU characterize this asymmetrical trade relationship.

The EPAs furthermore have been used by the EC to push the agenda of the RMI, most importantly by putting a rigid export-tax clause on the (I)EPA negotiation agenda. For many commodity dependent SSA economies – largely exporting unprocessed raw materials – constraints on export taxes can severely limit policy space, e.g. for industrial development, since export taxes are a useful instrument to incentivize local suppliers to functionally upgrade and move into processing. The EC nonetheless continued to pursue the strategy of the RMI on undistorted access to raw materials despite the strong resistance of many African states.

ACP negotiators were only partly able to weaken the export tax clause in the EPAs. The CARIFORUM-EPA of 2008 prohibits *any* application of export taxes on goods exported to the EU (and vice versa) (CARIFORUM-EPA 2008: Article 14). The regional African EPAs (ECOWAS, EAC and SADC)[7] in comparison 'only' prohibit the implementation of *new* export taxes and allow for the temporary introduction of new export taxes in case of 'exceptional circumstances'[8] (e.g. protection of infant industry, ensure food security or environment protection and others) (Grumiller et al. 2018). The ratified SADC-EPA allows for temporary export taxes in case of industrial development needs on a total number of eight products (on HS4/6 level). The EPAs (if ratified) furthermore put the pressure of justification regarding the usage of export taxes on the side of the African EPA partner states (often in the context of weak capacities and capabilities in the state apparatus).

China: Underlining mutual benefit

China's economic up-rise was accompanied by a drastic surge in demand for raw materials. Thus, the secure supply of minerals and energy commodities is a top priority in China's foreign and economic policy. The importance is underlined in the last three five-year

plans (2006–10, 2011–15 and 2016–20) and the formulation of various policy papers, for instance the white papers on mineral resources (Chinese Central Government 2003) and on the national rare earth industry (Chinese Central Government 2012). Although the internal supply with raw materials should be further strengthened for instance by increased extraction, recycling and efficiency gains, there are strong efforts to secure raw material supply externally (Hilpert/Mildner 2013).

Starting in the late 1990s, the Chinese government actively promoted the international engagement of Chinese state-owned and private corporations, known as the 'go global policy'. This economic engagement is however broadly embedded in China's traditional diplomatic and political approach to international cooperation, combining foreign policy, development aid and economic cooperation, as shown here for the case of SSA countries. With regard to mineral resources, this strategy is specified in the white paper on mineral resources (Chinese Central Government 2003, Part IV):

> China will carry out its policy of opening to the outside world unswervingly. It will take an active part in international cooperation in the field of mineral resources to promote the exchange of domestic and foreign resources, capital, information, technology and markets on the basis of reciprocity and mutual benefit. […] China implements the policy of encouraging foreign businesses to invest in mineral resources prospecting and exploitation in the country.

Since the publication of this strategy, there has been a surging engagement of public and private Chinese actors in resource-rich countries within this framework. Between 2004 and 2015, the China's total direct investment stock in the overseas mining sector increased drastically from USD 6 bn to more than USD 142 bn (China Statistical Yearbook).

The Sino-African links go back to the early days of decolonization and were initially driven by political intentions (most importantly the movement of non-aligned states and the China-Taiwan conflict). These ties have been re-intensified – but also re-shaped – in various ways since the early 2000s. The historical context is reflected in the official rhetoric on 'mutual benefit' and 'non-interference' as key features of China's relations with African countries as well as in the emphasis on South-South cooperation with China as the 'world's largest developing country' (Grimm 2014). With regard to raw materials, China makes reference to its own experience with foreign capital engaged in its resource sectors in the 1970 and 80s (Chinese Central Government 2003). In particular the arrangements with Japan serve as a blue print, in which concessional loans were repaid with Chinese oil and coal exports, enabling China to import Japanese products and technology (Brautigam 2009: 47–51).

One prominent instrument of China-Africa relations in the commodity sector today are so called resource-for-infrastructure (RFI) deals. These arrangements typically involve bilateral cooperation agreements between the Chinese government (in particular the Ministry of Commerce, MOFCO) and its African counterpart, providing concessional infrastructure loans by Chinese policy banks (China Development Bank or the Export-Import Bank).[9] The loans are tied to the procurement of Chinese inputs (services, goods and labor) in the infrastructure projects. Typically more than 50% of the credit lines goes directly to Chinese construction firms (mostly SOEs) or Sino-African joint ventures formed to implement the construction projects (Alves 2013). In some agreements (for instance with Angola), the loans are repaid by the sale of commodities – often specified by type (mostly crude oil or minerals) and volume – to a Chinese SOE. More commonly, natural resources are used to secure Chinese loans, but not to repay them directly (Brautigam/Hwang 2016).

So far, there exist RFI deals with seven resource-rich countries in SSA (Angola, Democratic Republic of Congo (DRC), Gabon, Ghana Nigeria, Sudan and Zimbabwe) with a total credit volume of USD 14 bn (Brautigam, 2016). In particular the China-DRC agreement intermingles loans, infrastructure projects and mining concessions with commodities serving as mode of repayment (Alves 2013).

RFI agreements are widely criticized by Western actors as the strong role of the government and the close cooperation with Chinese SOEs and policy banks is largely perceived as unfair competition. In addition, the lack of conditionalities regarding governance is seen as illegitimate support for 'rogue regimes' as well as ignorance regarding social and environmental implications of mining activities (Grimm 2014).

This strong focus on RFIs in the public perception might however misguide conclusions and should be set in perspective with regard to China's role in SSA as a whole. Firstly, FDI flows and stock from China still plays a minor role in SSA, despite its dynamic growth. Dollar (2016) estimates that Chinese FDI account for 5% of SSA's total FDI stock in 2014. Around 30% of this stock is invested in the extractive industry, which is equivalent to USD 8 bn (UNDP 2013, China Statistical Yearbook). In contrast, EU's FDI stock in the African extractive industry amounts to USD 92 bn which also represents 30% of its total FDI stock in SSA in 2014 (OECD 2017a). Secondly, China's activities in SSA are increasingly diverse and go beyond the extractive industry. According to Brautigam/Hwang (2016), only 10% of Chinese loans to SSA countries between 2000 and 2014 went to the mining and oil sector, while one third went to transportation (mainly road and rail projects) and another 20% to energy (mainly hydropower and power lines). China's private corporations play an increasing role in Africa, even though their activities attract less attention. While in 2002 only 5 of the 21 Chinese FDI projects in Africa were privately owned, the share of private owners increase to more than 53% in 2013 (Pigato/Tang 2015). However, private actors are largely active in manufacturing and trade and to a lesser extent in mining (Shen 2013).

Undoubtedly, there are major conflicts and challenges involved with China's investments in Africa: they often take place in carbon intensive sectors; labour and environmental standards are often not respected. Furthermore there are many cases where huge projects have failed due to a lack of governance and other factors, but the related loans from Chinese banks add to the external debt base (Dollar 2016). Combined with the envisaged scaling up of blended finance[10] for Africa from the European Union this trend causes rising concerns of contributing to the building up of a new debt crisis in Africa.

Overall, Sino-African deals in the mining sector have attracted specific attention, despite the fact that interests are often not that different from the FDI traditionally attracted to the continent. However, the comprehensive approach to cooperation makes China an attractive partner for SSA countries with regard to development strategies beyond the trade of raw materials.

Differences and Convergence

There are major differences between the Chinese and European approach to secure access of raw materials in SSA countries on a rhetorical as well as on a practical level. However, we can also identify some converging trends.

On the one side, the EU and its member states try to promote a political and legal framework that enables private actors to gain 'undistorted' access to raw materials based on liberal market principles. The major tools applied by the EU are trade and investment policies

as well as development cooperation. The former targets potentially trade distorting measures, while the latter provides funds for the promotion of good governance and strengthening of the state in order to establish open investment and natural resource policies (Ramdoo 2011). On the other side, China grounds its economic activities on a network of strong political and development relations with African countries while highlighting key features of reciprocity and 'non-interference'.

These rhetoric differences translate to diverging features with regard to the implementation on the ground. European actors in the extractive industry are to large degree private Transnational Corporations which are supported rather indirectly by the EU and its member states by the creation of a liberal trade and investment regime. In contrast, the Chinese central government is a key actor itself in relation to large investments in the extractive sector and related infrastructure, i.a. by operating via its SOEs and state owned policy banks.

A further difference between the EU and China concerns the conditionalities in policies related to raw materials. As it has been widely shown that resource wealth tends to support authoritarian regimes, corruption and violent conflicts (Ross 2015), the EU puts an emphasis on transparency and good governance in resource-rich countries (Küblböck/Pinter 2015; Küblböck/Grohs 2017). Development finance e.g. by multilateral development banks is commonly attached to environmental and social safeguards which have been introduced due to pressure from civil society in donor and partner countries (Dollar 2016). In contrast, China largely excludes such conditionalities based on its 'non-interference' principle. The engagement with non-democratic and authoritarian regimes and the disregard of social and environmental standards are largely criticized by western actors (Hilpert/Mildner 2013).

Despite these diverging major characteristics towards the access to raw materials in SSA countries, some converging trends between the EU and the Chinese approaches have emerged over the last years. The EU is increasingly using political instruments by attributing an active role to raw-materials diplomacy in the RMI. Thus, diplomatic channels are used to increase cooperation and sign 'Letters of Intent' and other political frameworks (EC n.d.). The Joint Africa-EU strategy, launched in 2007, corresponds to the Forum on China-African Cooperation and highlights cooperation related to raw materials covering governance, geological knowledge as well as the importance of infrastructure projects (EC 2017b).

Further, the EU is responding to the need (or competition) for financing infrastructure projects by establishing a range of financing facilities that combine public and private finance. These facilities – such as the EU-Africa Infrastructure Fund – will be integrated in a new European External Investment Plan (EIP) which shall be able to mobilize up to EUR 44 bn to encourage investment in Africa and the EU Neighborhood region. Part of the EIP is also a new European Fund for Sustainable Development (EFSD), a financing mechanism that aims to support investments by public financial institutions and the private sector (EC 2017b). These increasing EU efforts can be interpreted as counterbalancing measures to the lending activities of Chinese actors. Between 2000 and 2015 China provided USD 94 bn of loans to African countries (Atkins at al. 2017) with a strong focus on infrastructure (Dollar 2016). In 2015, President Xi pledged another USD 60 bn in development funding for Africa, mainly in form of loans and export credits (Middlehurst 2015).

On the Chinese side, the convergence to the European approach is associated with the augmented role of private companies and the acquisition of western mining companies.

These companies might be less tied to the official framework set by the state and increasingly profit-oriented (Grimm 2014). This could also be related to a shift in China's policy focus to the Belt and Road Initiative, potentially decreasing the strategic importance of Chinese operations in other African countries. Another element of convergence is that Chinese mining companies are gradually pushed towards more transparency. In 2015, "Guidelines for Social Responsibility in Outbound Mining Investments" for Chinese companies have been published (RCS Global 2015). The Extractive Industries Transparency Initiative (EITI) also reports that 90 Chinese companies, including the SOEs, disclose their information to EITI and are as engaged as Western companies (EITI 2015).

As a whole, the formally contrasting approaches by EU and China towards raw materials appear to converge lately to some degree. The key question for SSA countries is how the growing interest of the EU and China will influence their future development path. Some reflexions are presented in the following part.

Conclusions: Potential impact on resource-rich countries in SSA?

First, the new demand from China and other BRIC countries increased bargaining power of African governments and intensified the debate about missing benefits of resource exploitation in many countries. As a consequence, several countries (such as Tanzania, Zambia or South Africa) undertook measures to increase resource income e.g. via new tax legislation, the renegotiation of mining contracts, or the formulation of strategies for industrialisation and diversification. In 2009, the African Mining Vision was adopted by African Heads of State in 2009 (AU 2009). It proposes a shift away from a model of extractive resource exploitation towards broad based and inclusive development (Küblböck 2013b).

Second, investment in infrastructure has contributed to impressive growth rates. For a long time, lack of infrastructure investment had been a major obstacle to economic development in Africa. In the past years SSA has received about USD 30 bn annually in external finance for infrastructure. Contrary to public perceptions, China is only providing about one-sixth of this amount. However, China has filled a gap by focusing on transportation and power (Dollar 2016) which are often closely related to projects in the extractive sector.

Third, China limits its engagement not only to extraction of natural resources but also supports upgrading in the commodity sector (for instance copper smelters in Zambia) as well as the investment in manufacturing and services (Brautigam/Hwang 2016). This also has to be seen in the context that the shift of China's own growth pattern will increasingly require the outsourcing of labor-intensive sectors also to SSA countries with a low wage level (Staritz/Whitfield 2017).

Fourth, the economic development of China and the engagement of China in Africa revived the debate about the developmental state and the role of industrial policies in economic development. After a period in the 1980s and 1990s where African mineral policies have – under the auspices of the Bretton Woods Institutions – mainly focused on a withdrawal of the state from productive activities and in trying to attract FDI to mining sectors (UNECA/AU 2011; Besada/Martin 2013), the importance of the state and public polices for industrial development is back on the agenda, for instance in the new international development framework – the Sustainable Development Goals (SDGs, UN 2015).

Last, but not least, if Chinese and renewed EU engagement in SSA will lead to inclusive and sustainable economic development in the respective countries will mainly depend

on the strength and position of governments and their institutions and policies and on internal dynamics and power relations.

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Notes

1 When employing the term Africa and SSA, we refer to resource-rich countries in Sub-Saharan Africa.

2 The RMI focuses on non-energy and non-agricultural raw materials.

3 Following the critique on the EU trade policy in general and the hard stand with regard to raw materials specifically, the newest EU trade strategy 'Trade for all' (EC 2015) replaced the expression 'undistorted' by 'non-discriminatory' and includes environmental issues as well as the a critical stand towards 'state owned enterprises'.

4 The push for stricter rules on export taxes in the WTO rules, however, has not been successful so far.

5 'Good governance' is a normative concept that prescribes certain procedures and institutions. The EU defines five good governance principles: openness (transparency and communication), participation, accountability, effectiveness and coherence. Weiss (2000) argues that good governance has become a political and economic conditionality for development aiming for political democratization and economic liberalization (see also Leubolt 2007 for a detailed discussion).

6 Due to the recent downturn in the mining cycle and the pressure from NGOs, EIB has become more selective on project finance, placing more emphasis on environmental and social aspects (EC 2013: 10)

7 Based on the current versions of the agreements (end of 2017). The ECOWAS and EAC-EPAs are not yet ratified.

8 The definition of 'exceptional circumstances' varies among the different EPAs.

9 Only the interest subsidy by the Chinese government counts as ODA according the OECD guideline (Alves 2013).

10 Blended finance has been defined by the OECD as "the strategic use of development finance for the mobilization of additional commercial finance towards the SDGs in developing countries" (OECD 2017b, 1).