

**AERC collaborative project**

**Topic**

**Economic relations of China with the Republic of Congo**

**By**

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## **I. Introduction**

### **Review of cooperation between China and Congo**

Economic cooperation between Congo and China is dates back to many years. It started in 1964 with the government of Massamba Debat. During that period, a number of achievements in the economic and social field had been made and had a significant impact on the Congolese economy. China had contributed its aid in the construction of a textile industry by establishing in Brazzaville the country's first textile factory, the Kinsoundi factory, within the framework of the import substitution strategy. That experience marked for the first time the movement from an agriculture-based economy to an economy based on industrial processing. In the commercial sector, China subsidised the establishment of the National Trade Commission (OFNACOM). This commission had established in the principal cities of the country—Brazzaville and Pointe-Noire—shops where manufactured goods from China were sold at low prices.

In the social sector, Sino-Congolese cooperation was manifested through the construction of healthcare centres and the sending of Chinese doctors and teachers in high schools and the university.

With regard to infrastructures, China contributed to the construction of the football stadium where the first African athletics games took place in 1965 and to the construction of the Parliament Building in the 1980s. In the same way, it participated in the construction of the Moukouloulou electric dam in Bouenza District. This dam allowed the electricity supply of the towns of the south and mainly of Pointe-Noire, the economic capital, and partly of the city of Brazzaville.

In the 2000s, this cooperation evolved a great deal. One notes the arrival of a new players, Chinese private sector companies, whereas during the 1960s-1980s, the interventions were the work of the Chinese State. This trend corresponds to the internal transformations recorded by China in the 1970s, transformations characterised by a massive entry of foreign capital and the development of mixed forms of public and private investments with the contribution of large multinational firms. This evolution is also marked by the diversification of Chinese investments. China is participating in the construction of buildings, roads, telecommunications, the oil and wood industries and trade. Chinese small shopkeepers increasingly tend to set up in the working-class districts and to sell products imported from China.

China has come to Congo to look for the raw materials (oil, wood) necessary for its growth. On the other hand, it brings to the country its tied financings and its men in great number. Its range goes from barter agreements to more sophisticated financial arrangements by basing itself on concession financings. In the example of Congo, the donation element of its financings has reached 16% (Ministry of Planning, 1995-2005).

Over the last few years, China has marked its entry in Congo with the launching of the Imboulou hydroelectric site (196 billion CFA francs), followed in 2006 by the nearby VHV lines (351 billion CFA francs). The other ongoing activities are less significant, certainly with the realisation of social housing, but also the controversial resumption of the Loutété cement factory, the delayed construction of the air terminal of Pointe-Noire, or the massive arrival of petty Chinese trade. On the whole, several Chinese companies have already set up in the country, having benefited from invitations to tender closed to competition (Sauvageot, 2007).

The 2007 draft investment budget right now envisages 100 billion CFA francs on account of discounts reserved for Chinese contracts. Nearly 700 billion CFA francs of contracts are thus concerned, including 1,041 km of roads and a new terminal at the Brazzaville Airport. A second wave, less strong, should exhaust in 2008 the available improved financings. The latter have a high cost, even for China.

According to the French Cooperation Mission, the budgetary affluence of Congo, however, relativises the impact. On “open” invitations to tender that the investment budget will authorise nevertheless for more than 300 billion CFA francs, the chances of non-Chinese companies remain intact. Recent successes (second runway of Brazzaville Airport, electrification works in the North) indicate a remarkable resistance of these companies, Congo’s partners well before China’s return in force (Sauvageot, 2007).

In a context where the Congolese economy is not diversified, dependent on imports of manufactured goods and the oil industry, characterised by a limited rate of openness amounting to 32% (besides oil), unqualified labour, the growth of Chinese trade and investments merits to be analysed in detail in order to see if Congo is a loser or a winner..

Thus, the objectives of this research are as follows:

The general objective is to assess the relations between China and Congo in order to identify the gains and the losses of the Congolese economy.

Three specific objectives are attached to the general objective. The first is to assess the share of Chinese in the Congolese economy; the second is to measure the share of imports from China and exports to China in Congo’s foreign trade; the third is to see China’s public development aid in Congo is distributed.

## **Literature review**

The analysis of Chinese investments must be carried out taking into account the globalisation of the economy because of FDIs. The literature shows that China has an impact on African economies in at least three aspects: trade, FDIs and consequences for the diversification of African economies.

## **Trade**

China’s high growth rates are at the root of this country’s high demand for basic commodities from Africa. According to Goldstein, Pinaud and Chen (2006) reporting on

the data of a study conducted by Kennan and Stevens (2005), seven categories of imports that principally interest African exporters of African products increased at a rate 1.5 times larger than the average of Chinese imports for the period 1998-2003. These are animal feeds for Burkina Faso, Ethiopia, Nigeria, Sudan and Tanzania; cobalt for South Africa and the Democratic Republic of Congo; Copper for Zambia and South Africa; alumina for Guinea; ferrous metals for Mauritania, South Africa and Zimbabwe; and chemicals for Niger. It can be observed that the progression of imports of basic commodities on the world market is lower than that of imports of these same products by China and India.

Another important element relating to trade is that of prices. The literature shows that the participation of the Asian giants on the world market influences the prices of these products. Two trends are observed: the increase on the one hand and the volatility of the prices on the other.

The prices of four basic commodities, crude oil, metal ores, wood and precious stones have increased since 2001. That of cotton recorded a drastic drop in 2004. The price of oil experienced a regular increase of 18.7% for the period 2000-2004. That of copper followed the same trend and increased by 53% with high fluctuations.

Fluctuations were accentuated for the period under review, thus marking high volatility of the prices of raw materials exported by African countries. According to Goldstein et al. (2005), volatility increased for all the products except for copper. It is difficult to distinguish the relative influence of the various factors in these fluctuations. However, it is possible that this situation is partly attributable to China and India, considered as versatile producers, who export when prices are attractive and stock the products when the prices are falling.

## **Foreign direct investments**

Foreign direct investments represent another facet of Chinese cooperation in Africa. This form is recent because it is since the beginning of the 2000s that one notes a big surge of the Chinese investments operated by this country's firms in the field of building construction, infrastructures, industry, trade, etc. The share of FDIs established in Africa is recording a net increase, which is positive (ECA, 2007).

## **Economic and social consequences for Africa**

The literature underlines a series of economic, social and environmental consequences which Chinese investments in Africa involve. Thus, according to an expert of the French Cooperation Mission in Congo, China has left its reserved field, that of discreet cooperation, and is venturing into the market economy. The question is to know if it will be able to abide by its rules. It is significant that its action is sometimes criticised under the environmental angle (fisheries, forests), under the social angle (labour law, employment of nationals), under the technical angle (completion periods, quality) and under the fiscal angle (in-kind pledges, exemptions) (Sauvageot, 2007).

Two trends can be underlined in the literature that analyses the incidence of China on African economies.

A first trend is that which considers positive China's economic relations with Africa (Benno Ndulu, 2007; ECA, 2007; Kaplinsky, 2007). According to these authors, African countries have the opportunity of diversifying their trade and sources of financing that were for a long time dominated by the countries of the European Union. Moreover, China's financings are being used in the growth-generating sectors such as infrastructures that had been neglected for a long time for the benefit of the social sectors. The share of FDIs destined to Africa has increased thanks to the economic relations with China.

The second trend considers instead that this influence is likely to worsen the dependency of Africa on regressive specialisation, that limited to the role of provider of raw materials and thus to thwart the diversification efforts put in motion by some countries (Goldstein et al., 2006; Van der Walt and Schmidt, 2006; Sauvageot, 2007; Kaplinsky, 2007). Moreover, processing industries such as textiles in Southern Africa (Lesotho, Kenya, South Africa, etc.) are likely to suffer from the competition of cheap Chinese products. Similarly, debt could increase whereas part of it has been cancelled. Finally, the respect of social and environmental law is likely to be compromised by Chinese businesses which are much more interested in profitability and not very concerned of the rights and obligations put in place by the legal mechanism.

## **Research questions**

From the foregoing, two main research questions emerge:

- What is the share of China's capital flows and investments in the Congolese economy?
- What are the advantages and disadvantages of Chinese cooperation and what strategy can be implemented to minimise the constraints and to maximise the advantages?

## **Methodology**

The methodology will be based on the estimations of the share of investments, capital and trade flows in the sectoral and aggregated values of these various aspects of the Congolese economy. It will be as based on discussions with the persons in charge of the departments of planning and cooperation, trade unions and professional organisations in order to collect their opinion on Chinese cooperation, the constraints that it poses, the gains and losses that it brings to the Congolese economy. The tables have been harmonised according to the national accounting and international trade nomenclature. The values have been converted into dollars<sup>1</sup> to allow international comparisons.

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<sup>1</sup> The official rate of 1 dollar is equal to 500 FCFA was selected compared to the rate of day to surmount with the problem of erratic fluctuation of the American dollar.

The structure of the present study includes three sections in addition to the introduction: section II deals with investments, section III with foreign trade and section IV with aid.

## II. Investments

China's investments in Congo essentially take two forms, government loans and aid. Public works are executed by Chinese companies whose tendency is to import from China the raw materials and inputs necessary for the execution of the projects and also most of the labour. It is observed that skilled workers are mainly Chinese and the local workforce is made up of unskilled and often poorly remunerated workers. For the period 1995-2005, China's investments in Congo amounted to 52.226 billion CFA francs. This amount excludes investments realised in the form of aid, which will be examined in point 4.

Table 1. Structure of Chinese investments in Congo from 1995 to 2005  
(in millions of US dollars)

Sector	Amount	Percentage
Energy	68.01	68.01
Building and public works	20.952	20.952
Health	11.548	11.548
Industry	6.028	6.028
Telecommunications	4.826	4.826
Education	1.400	1.400
Agriculture	0.064	0.064
Others	1.812	1.812
<b>TOTAL</b>	<b>114.640</b>	<b>114.640</b>

Source: Calculations of the author based on the Ministry for Planning's data

The energy sector, in particular electric energy, is the principal sector where China's investments are concentrated. The data of table 1 show that Chinese investments in Congo are concentrated in this sector and amount to 34 billion CFA francs, that is to say 57.42% of China's total financings. It can also be affirmed that China is the country that intervenes most given the amount of investments directed to this sector.

After electric energy sector, far behind is the building and public works sector. This sector takes 15% of Chinese investments. They essentially relate to the project of rehabilitation of the Alphonse Massamba Debat Football Stadium located in Brazzaville. This is the stadium that hosted the First African Games of 1965 and which was built at the time thanks to Chinese cooperation. From 1996, the work of rehabilitation of this stadium started. The work was suspended during the war of 1997 and resumed in 2001 when social peace was restored in the country.

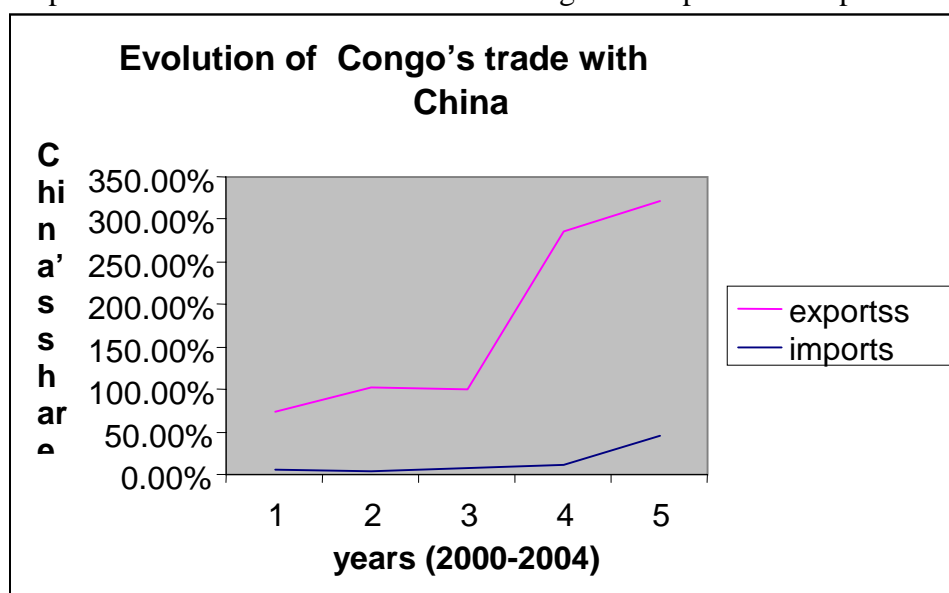
Finally, after the building sector can be observed the share occupied by industry, which amounts to 11% of China's investments in Congo. This amount represents investments realised in the company that produces cement, which is in Loutété. A Norwegian multinational firm this company was managed before the war. The Congolese government disputed the management and the contract was broken and, after the war, the Chinese interested in the project took it up again.

### III. Trade

Trade between China and Congo has a history that follows the evolution of cooperation between the two countries. Trade has thus existed for a long time. However, from the years 2000, trade experienced a significant evolution, notably Congo's exports to China.

The period 2003-2004 experienced a real boom of Congo's exports to China. This country's share recorded a vertiginous increase and then China's share in imports experienced a definitely slower growth as graph 1 shows.

Graph 1. Evolution of China's share in Congolese imports and exports



Source: The author based on the data of DGD and the Bank of Central African States (BEAC)

### 3.1. Exports

#### 3.1.1. Evolution of Congo's exports to China

The data show that Congo's exports to China experienced a vertiginous increase for the period 2000-2004. These exports moved from 88.9 billion to 744.3 billion CFA francs, i.e. an increase of 733.2%. This increase confirms the enormous needs for raw materials manifested by the Chinese economy and which justify such a demand. In 2004, 14.83 of Congo's exports went to China while in 2000, they amounted to 5.01%. This is a new

configuration in the geographical orientation of the foreign trade of Congo whose oil exports were for a long time almost exclusively directed to the USA, its largest customer.

Table 1. Evolution of Congo's exports to China  
(in millions of US dollars)

Year	China's exports	Total	China's %
2000	177.8	3,548.2	5.01%
2001	113.8	3,013.2	3.78%
2002	232.6	2958.4	7.86%
2003	374.0	3064.8	12.20%
2004	483.0	3255.0	14.83%

Source: The author based on the data of DGD and BEAC

### 3.1.2. Structure of Congo's exports to China

Congo's principal exports to China in 2004 consisted of crude oil and wood. These two products were exported in a crude state. These two types of products are distributed as follows: oil occupied a share of 86.36% and the various types of wood (okoumé, sappeli, etc.) 13.50%.

Table 3. Structure of Congo's principal exports to China in 2004 (in millions of US dollars)

Description	Volume (tons)	Values	Value as %
Petroleum	1,830,803	410.984	86.36
Wood	186,898	64.258	13.50
Plywood	313	0.634	0.14
Total	2,015,130	475.876	100,00

Source: Author on the basis of the data of DGD and BEAC

## 3.2. Imports

### 3.2.1. Trend of the share of imports from China

Imports increased slightly during the period under review. However, generally, they remained relatively low and in Congo's total imports, the share of those from China was quite marginal. In 2004, this share amounted to 2.7%, which is quite modest compared to exports.

Table 4. Trend of Congo's imports from China  
(in millions of US dollars)

Year	Imports from China	Total	China's %
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2000	5.8	848.2	0.68
2001	9.8	999.0	0.98
2002	8.8	941.8	0.93
2003	26.4	966.2	2.73
2004	25.2	913.0	2.76

Source: The author based on the data of DGD and BEAC

### 3.2.2. Structure of imports from China

Congo's imports from China essentially consist of manufactured goods and foodstuffs. There are four dominant types of goods - rice, tobacco, cement and building materials.

**Table 5. Structure of the principal imports from China**

Description	Volume (in tons)	Value (in millions of US dollars)
Building materials	70,789,668	5,388
Foodstuffs	4,738,073	3,726
Pharmaceutical products	476,027	1,726
Textile products	915,653	1,060

Source: The author from the Ministry of Planning's data

## IV. Capital flows and Chinese aid

It is interesting to have an overview of capital flows and the share of public aid in these flows.

Capital flows from China take three forms: donations, loans and private sector capital. The first two forms are the work of the Chinese Government and the third is directly related to Chinese private sector companies.

**Table 6. The various capital flows from China (1995-2005)**  
(in millions of US dollars)

Year	Donations	Loans	Private sector	TOTAL
1995		3,6		3,6
1997		1,714		1,714
1998	1,972	1,714		3,686
1999	4,808	19,412		24,22
2000	5,58	4,942		10,522
2002	6,064	63,376		69,44
2003	4,448	1,654		6,102

2004	0	12,2		12,2
2005	0	0	6,028	6,028
<b>TOTAL</b>	22,872	108,612	6,028	137,512

Source: The author from the Ministry of Planning's data

The following table clearly shows that government loans are the main form in which Chinese capital in Congo is invested. Loans amount to 78.9% of the total capital invested by China in Congo, followed by far by donations with 16.6% and then by private investments with 4.3%. It is important to stress that private investments are very recent form since their entry dates back to only 2005 whereas the other forms are very old.

Table 7. Distribution of capital flows according to their nature

Nature	Amount (in millions of US dollars)	Percentage
Loans	108,612	78.98%
Donations	22,872	16.63%
Private sector	6,028	4.38%
Total	137,512	100.00%

Source: The author from the Ministry of Planning's data

Chinese aid is especially directed to the health, water and education sectors. It enables China to draw some political and economic benefits. At the political level, aid contributes to further linking the government to China, which is presented as a "friendly" country. This gives her the opportunity to benefit from privileged relations with the country's authorities. From the economic point of view, this aid serves China because of the close relations with the authorities, to be able to gain from the public markets that it is in addition ready to pre-finance and to be repaid the credit released on the basis of a low interest rate (concessional). In addition, these public markets enable China to sell its equipment and products and thus to offer outlets for its public and private companies. Finally, through these public markets China creates jobs for its plethoric workforce and at low costs.

This is why Chinese donations are taking a certain magnitude in a context where the country needs resources and financing needs are huge when the foreign debt reduces the State's capacity for financing infrastructures.

## V. Is Sino-Congolese cooperation winner/winner cooperation?

We have constructed a table in which we identify the areas of cooperation with China where Congo is a winner and those where it is a loser. These gains and losses are difficult to quantify now because this assessment requires accurate data, which are difficult to obtain at the current stage of the research. Gains are identified when transactions lead to a diversification of products, markets and sources of financing. Diversification is a good

thing for the Congolese economy which suffers from the weakness of its productive system and the geographical concentration of its foreign trade. Indeed, more than 50% of its imports come from the European Union and the USA is the principal customer for its exports. Another significant advantage drawn from China's investments is the fact that these investments are concentrated in a vital sector, that of electric energy whose driving character in the economy is often recognized. The Congolese economy is handicapped by the high cost of the factors, in particular that of electricity. The supply of electric power is today lower than demand. The large investments made in this sector should in the immediate future contribute to definite improvement of the supply of electric power and to lowering of the cost of this factor. Finally, Chinese aid relating to the construction of medical facilities contributes to the improvement of the social conditions of the population.

Losses are considered in areas where Congo does not draw any benefit when the cooperation is not advantageous for her. This is the case, for example, of production which is exported in a crude state and is limited to two products, which does not allow the Congolese economy to diversify, to establish processing industries for raw materials. This is also the case of human capital which cannot change and be strengthened if most of the jobs created are those of unqualified workers.

Table 8. Structure of Congo's gains and losses

<b>Areas</b>	<b>Winner</b>	<b>Loser</b>	<b>Observations</b>
Exports	Yes		Increased exports
Imports	Yes		Imports from China have a low cost, which reduces capital outflow and enables the poor to have access to manufactured goods
Diversification of production		Yes	Production has not changed. It is still limited to two principal products, oil and wood
Diversification of external markets	Yes		Until recently, the external market was limited to the European Union and to the USA. With China, the external market tends to diversify
Diversification of sources of financing	Yes		Sources of financing of investments are no longer limited to the countries of the European Union. China's entry makes it possible to diversify sources of financing
Infrastructures	Yes		Chinese investments are

			concentrated in the energy sector, in particular electric power. This is essential for the growth and development of the Congolese economy
Observance of regulations		Yes	It seems that some regulations are not respected (labour law, payment of public services, etc.)
Technology transfer		Yes	The transfer of technological skills is not done. Qualified labour is imported from China. The jobs created in general are for unqualified workers. Similarly, partnership with Congolese companies is not encouraged.
Social sectors	Yes		Chinese aid has been active in the health sector through the construction of a new hospital in Pointe-Noire

## Conclusion

Cooperation between the two countries comprises positive and negative aspects. These aspects should be assessed if possible in order to draw from them some relevant recommendations in terms of the cooperation policy. Relations between China and Congo are old relations which began in 1963. They slackened during from the 1970s to the 1990s then developed again from the beginning of the 2000s because of the considerable needs for raw materials for the Chinese economy. What is certain is that Congo, a less developed country confronted with enormous problems to ensure its growth and development, needs Chinese cooperation. However, it is up to the authorities to orient this cooperation in the most beneficial direction for the Congolese economy.

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