Chinese investment in Africa’s forests — scale, trends and future policies

An infographic presentation for the China-Africa Forest Governance Learning Platform

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About the China-Africa Forest Governance Learning Platform
The China-Africa Forest Governance Learning Platform was launched in 2013 and thus far brings together forest governance players, including heads of government forest departments, from eight African countries, representatives from the Chinese Academy of Forestry, the Global Environmental Institute, IIED, WWF and some other international organisations. By October 2016 the Platform has held three major international learning events – two in China, one in Cameroon. Participants have recognised its success to date in creating an open dialogue space for Chinese, African and the international community to come together.

The China-Africa Forest Governance project is a multi-country project that seeks to improve forest governance, by promoting sustainable and pro-poor Chinese trade and investment in Africa’s forest. Through research, dialogue and joint action with partners in China, Cameroon, Democratic Republic of Congo, Mozambique and Uganda, the project contributes towards improved policy and investment practice in China and Africa, in ways that foster good stewardship of forest resources and benefit local communities.

For more information visit www.iied.org/china-africa-forest-governance-project or contact:
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Illegal and unsustainable logging and industrial forestry operations such as plantations are major causes of African deforestation and forest degradation.

Logging is responsible for 33% of forest degradation.

Fuelwood and charcoal use is responsible for 50% of forest degradation.

In addition to a mine’s footprint, access roads open up the forest to further exploitation.

Mineral mining causes 10% of deforestation.

In 2005, the Chinese State Council ordered banks to withdraw credit from companies that do not meet national industry environmental standards.

But there is an increasing amount of undocumented investment in small scale, artisanal mining operations.

Agriculture causes 75% of deforestation.

45% of this is commercial.

55% local and subsistence.

Forestry, Infrastructure, and Agriculture are major sectors that affect Africa’s forests.

Timber is China’s 3rd largest commodity import from Africa after oil & minerals.

The most significant forest product export to China from Africa is timber, mostly from the Congo Basin, miombo woodlands and West Africa, followed by pulp & paper, mostly from South Africa and Swaziland.

In the past few years, China has competed with the EU to be the principal destination for tropical timber from Africa.

Precious woods in the China-Africa timber trade:

Africa’s forest product exports to China have a higher share of total imports by value 5.2% than by volume 2.8%.

This suggests China’s relative importance when it comes to higher value timber exports... especially for tropical hardwoods, where Africa’s share of China’s imports by value 13.6% is more than double its share by volume 6.5%.

Rosewood (hongmu): key commodity in the trade

Rosewood (hongmu) species is valued as the traditional material for antique furniture and decor. It was traditionally found in Southeast Asia, but these forests have already been depleted.

Rosewood imports from Africa have increased x700% since 2000.

Who are the investors?

SMEs and private companies play a major role in the African forest sector.

More than 80% of the Chinese companies that have invested since 2007 have less than $10 million in registered capital. These companies have very few ties with the government or commercial banks, which makes it more difficult for the government to oversee their environmental and social impacts through regulations and guidelines.

Africa’s mining sector is primarily driven by demand from the world’s 2nd largest economy. The sector is diverse, ranging from large-scale operations to artisanal mining. Chinese players range from multinational companies to SMEs.

China’s imports of ore and minerals in Africa grew from $350 million in 2000 to $7 billion in 2009. More than 40% of this came from the DRC alone.

In 2012, China had the largest mineral import bill of all countries. It purchased US$100 billion worth of minerals from 100 countries including 23 in Africa. Purchases from Africa were dominated by base and precious metals & precious and semi-precious stones.


Since the government began to encourage diversification of its sources of mineral imports, the number of major mineral processors in Africa with Chinese involvement has risen significantly.

Chinese mining or mineral processing assets in Africa

Countries with Chinese involvement in the mining industry

‘Involvement’ includes mineral and metallurgical processing or manufacturing, power generation, and/or infrastructure development, as well as investment banks, research institutes and even individuals. **Data Sources:** Basov, V (15 December 2015) The Chinese Scramble to Mine in Africa. Mining.com.
CHINA IN AFRICA’S INFRASTRUCTURE SECTOR

As of 2014
China is:
- the owner of 1 project

funding 13 projects (4%)
involved in the construction of 42 projects (15%)

President Xi Jinping, FOCAC, Johannesburg, 2015

$60bn funding support, including:
- $35bn concessional loans and export credit
- $10bn China Africa Fund for Production Capacity Cooperation
- $5bn grant and zero-interest loans
- $5bn Special Loan for the Development of African SMEs

Major African infrastructure projects linked to China by financing, construction, or investment

- Concrete plants: Cameroon, Ethiopia, Kenya, Mali, Niger, Nigeria, Senegal & Zambia $4.34bn
- Cement plants + other
- Hydropower dam: Guinea $1.4bn
- Coastal railway: $12bn, Oil refinery: $6.4bn, Nigeria
- Copper mining: South Africa $1.36bn
- Hydropower dam: Angola $2.8bn
- Standard-gauge railway: Chad $5.63bn, Sudan $1.45bn, Kenya $13.8bn, Uganda $1.6bn, DR Congo $2.65bn
- Offshore LNG project: Mozambique $4.21bn

Agriculture is central to African development. It generates 40% of GNP, constitutes 40% of Africa’s exports, and 70-80% of employment.

The share of agriculture in China’s investment in Africa has been relatively small... but an increase is expected in the near future.

In early 2014, the Chinese government issued guidelines encouraging enterprises to invest in agriculture abroad. A sample of ~54 projects in Mozambique, Cameroon, Uganda, and DRC ranged from $60,000 to $5.5 million and from 12-20,000 ha. Most proponents were private companies.

Chinese banks have also been actively engaged in African agriculture. Supported by the China Development Bank, Zimbabwe and China signed an agreement worth US$585 million aimed at reviving the Southern African country’s agriculture, health and mining industries.

Agriculture was one of the 7 priorities of China-Africa aid named in President Xi Jinping’s FOCAC 2015 speech.

- engagement in large-scale farming
- animal husbandry
- grain storage and processing to increase local jobs and increase income for farmers

China is planning to...

- undertake agricultural development projects in 100 African villages
- send 30 teams of agricultural experts to Africa & establish a “10+10” cooperation mechanism between Chinese & African agricultural research institutes
- provide US$155 million of emergency food aid to countries suffering from poor harvests due to El Nino

As of 2015, the Chinese Ministry of Agriculture has...

- signed 31 cooperation agreements with 17 African government and organizations
- Built 22 agriculture demonstration centres
- Dispatched 100s of senior agricultural experts
- Trained over 5,000 agricultural, economic and technical personnel in Africa

China’s outward investments are increasing rapidly

China is now 3rd globally in FDI with investments of US$123.1 billion in 2014, a 14.2% increase from 2013.

Chinese companies’ involvement in African construction projects is also growing

~34% by value of signed and completed contracts is in Africa:

$472 billion of ~$1.4 trillion in signed contracts

$310 billion of ~$935 billion in completed contracts

China will launch 100 projects to...

- develop clean energy
- protect wildlife
- build smart cities in Africa
- promote environmentally friendly agriculture

China-Africa cooperation will never be pursued at the expense of Africa’s ecosystem and long-term interests

To date, the Chinese government has adopted 33 key policies and guidelines to promote sustainable development through its overseas investments.

Some of the more notable policies are:

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<th>Policy/Initiative</th>
<th>Issued by</th>
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<tr>
<td>Green Credit Policy</td>
<td>China Banking Regulatory Commission</td>
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<tr>
<td>Guidelines for Environmental Protection in Foreign Investment</td>
<td>MOFCOM and The Ministry of Environmental Protection</td>
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**Timber**

- The Guidelines on Sustainable Forest Cultivation for Chinese Enterprises Overseas
- The Guidlines on Sustainable Management and Utilization of Overseas Forests by Chinese Enterprises
- Legality certification initiatives such as the China Timber Legality Verification Scheme (CTLVS) and the Legal Timber Verification (TLV) certification
- The China Responsible Forest Product Trade and Investment Alliance

**Infrastructure**

- Guide on Social Responsibility for Chinese International Contractors

In 2010, 471 public companies published CSR reports.

By 2011, 181 Chinese companies had joined the **UN Global Compact**, which encourages businesses to adopt sustainable and socially responsible policies.

4 Chinese banks had joined **UNEP-Fi’s initiative on sustainable banking**.

China’s policies and Chinese companies’ awareness are moving in the right direction, but there is still much to do

In 2013, a survey measuring African perceptions of Chinese business was conducted in 15 African countries.

1,056 people completed an online questionnaire

The environmental responsibility of Chinese companies in Africa was perceived negatively by 53.9% and positively by 11.1%.

Although Chinese regulations for environmental and social safeguards exist, there is a low level of awareness on the ground.

Existing initiatives are mostly voluntary, with limited evidence for implementation. Awareness of regulations and policies among operational staff - who must handle trade-offs between development and environment - is low.

Awareness of Chinese overseas business policies and guidelines among 60 respondents based in Africa:

- 15% familiar with
- 55% never heard of
- 30% heard of but not familiar with
Action 1: Chinese government policies can use carrots and sticks

**Carrots**
Market incentives for companies following best practices
- e.g. The government can increase market demand for legal and sustainable timber through public procurement
- e.g. The government, industry and civil society can increase consumer awareness of products with high deforestation risks through initiatives such as the Round Table on Sustainable Palm Oil

**Sticks**
Many policies are voluntary or do not apply penalties. Make sure regulations are strong, with a clear enforcement and accountability system

Action 2: Chinese companies can decrease investment risks by understanding governance challenges

There are numerous risks in African natural resources investments:
- land rights complexity
- weak governance
- strict environmental regulations
- traditional rights of communities

Companies can understand and control these challenges and risks by:
- conducting due diligence
- reading and following voluntary guidelines
- working with local NGOs/development partners

Action 3: Chinese stakeholders can support better policy and practice in Africa

Good governance in Africa is necessary for progress across the board. Chinese stakeholders can call for and support policy and practice improvements via funding, technical training and capacity building.
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There are numerous risks in African natural resources investments:

Action 1: Chinese government policies can use carrots and sticks to incentivize companies to follow best practices. Market incentives for companies following best practices include:

- Carrots: The government, industry and civil society can increase consumer awareness of products with high deforestation risks through initiatives such as the Round Table on Sustainable Palm Oil.
- Sticks: Many policies are voluntary or do not apply penalties. Make sure regulations are strong, with a clear enforcement and accountability system.

Action 2: Chinese companies can decrease investment risks by understanding governance challenges. Companies can understand and control these challenges and risks by:

- Conducting due diligence
- Reading and following voluntary guidelines
- Working with local NGOs and development partners

Notes
This set of infographics illustrates the scale and trends of Chinese investment in sectors that affect Africa’s forests: forestry, infrastructure, mining and agriculture. It also highlights existing Chinese efforts in greening its investments abroad and points toward future steps for government actors, the private sector and civil society in ensuring pro-poor and green investments in Africa’s forests that benefit forest-dependent communities.