

## Sub-Saharan Africa Threat Assessment - China

Extract From the Sub-Saharan Threat Assessment by Financial Crime News - 2020.

With foreign colonial powers gone or fading away, and the US interest in the region reduced, China has stepped up to fill an important role, and has become the regions most important international partner, in terms of trade, aid, and investment (including infrastructure financing) combined, with China representing 15% of all imports and exports, according to the World Bank<sup>1</sup>, with at least 10,000 private companies<sup>2</sup> operating in the region, and a Chinese diaspora estimated at over 1 million people now living and working in Sub-Saharan Africa (SSA).

According to McKinsey (2017)<sup>3</sup> *"Chinese firms operate across many sectors of the African economy. Nearly a third are involved in manufacturing, a quarter in services, and around a fifth in trade and in construction and real estate. In manufacturing, we estimate that 12% of Africa's industrial production—valued at some US\$500 billion a year in total—is already handled by Chinese firms. In infrastructure, Chinese firms' dominance is even more pronounced, and they claim nearly 50% of Africa's internationally contracted construction market. Except in a few countries such as Ethiopia, they are primarily focused on serving the needs of Africa's fast-growing markets rather than on exports."*

According to The American Enterprise Institute<sup>4</sup>, Chinese investment in Africa has grown dramatically since 2005, and is now the third-largest destination for Chinese investment behind Asia and Europe.

Central to China's interest, is it's ability to secure its own long-term economic and political stability, securing long term access to African resources. A third of China's oil comes from Africa, as does 20% of the country's cotton, however, China also needs African manganese, an essential ingredient for steel production, copper, and cobalt, as well as coltan. These minerals are needed for electronics and rare earths, used in everyday consumer products such as computer memory, and mobile phones.

One-quarter of all Chinese investment is concentrated in Nigeria and Angola. Nigeria is one of China's largest investment partners in SSA, receiving relatively large funds. By example, China is backing two major rail projects, one from Lagos to Kano, and one from Lagos to Calabar, in part this latter coastal line is intended to support peacekeeping in the Niger Delta region, thus

<sup>1</sup> See: <https://wits.worldbank.org/CountryProfile/en/SSF>

<sup>2</sup> See: <https://www.mckinsey.com/-/media/McKinsey/Featured%20Insights/Middle%20East%20and%20Africa/The%20closest%20look%20yet%20at%20Chinese%20economic%20engagement%20in%20Africa/Dance-of-the-lions-and-dragons.ashx>

<sup>3</sup> See: <https://www.mckinsey.com/-/media/McKinsey/Featured%20Insights/Middle%20East%20and%20Africa/The%20closest%20look%20yet%20at%20Chinese%20economic%20engagement%20in%20Africa/Dance-of-the-lions-and-dragons.ashx>

<sup>4</sup> See: <https://www.aei.org/china-global-investment-tracker/>

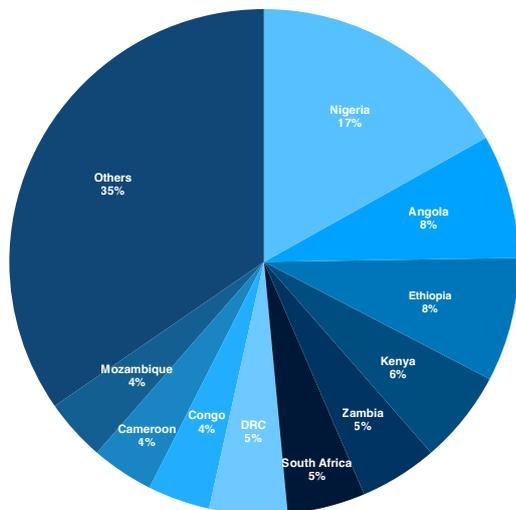
improving oil investments there. The coastal railway, costing an estimated US\$12 billion, is one of a number of “mega projects” in Africa, alongside the US\$4.5 billion Addis Ababa-Djibouti Railway, and the proposed US\$11 billion megaport and economic zone at Bagamoyo in Tanzania, which was intended to become the largest deep water port in Africa.

Initially agreed to in 2013, it is currently suspended as the Tanzanian government under President Magufuli, is seeking to renegotiate an allegedly “one-sided deal”, with China Merchants, the leading Chinese Ports Provider, claiming the terms were not beneficial to the country, which looks beyond the financing to reveal the conditions attached.

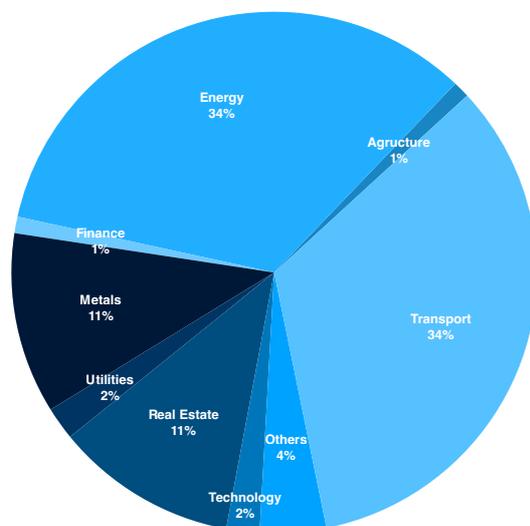
- Instead of a 99-year lease, the Tanzanian Government, wants to issue only a 33-year lease to China Merchants;
- Deny the company the tax-free status it requested, making it clear that it would be subject to all applicable taxes;
- Deny the company’s request to receive a special rate for water and electricity, insisting that it would be subject to the market rate like all other investors; and
- Deny China Merchants the ability to open and operate other businesses it deemed necessary within the port, without further government approval<sup>5</sup>.

In addition to Transport, the main industries and activities Chinese investment is funding is energy and metals.

**China Investment in SSA by Country - Source AEI**



**China Investment in SSA by Sector - Source AEI**



<sup>5</sup> See: <https://www.maritime-executive.com/editorials/tanzania-pushes-back-on-chinese-port-project>

As many SSA countries look to China to finance a better economic future, concerns have been raised about the possibility of many countries burying themselves in massive amounts of infrastructure-induced debt that they may not be able to actually afford. There have already been some concerning signs these may be legitimate concerns, with some examples highlighting this below:

- The Addis Ababa-Djibouti Railway ended up costing Ethiopia nearly a quarter of its total 2016 budget;
- Nigeria having to renegotiate deals, after it defaulted on repayments; and
- Kenya's largely Chinese-financed railway from Mombasa to Nairobi, secured on the Port of Mombasa, four times over budget, costing the country upwards of 6% of its GDP<sup>6</sup>.

Unsurprisingly, allegations of corruption have also been raised, for example arrests have been made against senior Kenyan figures, in connection with schemes off the back of these complex investments. McKinsey has also highlighted in their survey that corruption is a particular concern, and that 60 - 87% of Chinese companies in Africa admitted to paying bribes.

These concerns have some analysts issuing warnings about debt traps and opportunities for significant additional corruption, which are additionally impacted by high levels of illicit trade in mining, logging, fishing and wildlife, human trafficking and illicit trade in goods and drugs that operate alongside the licit activities.

While some skeptics are increasingly critical of China's interest in Africa, even citing neo-colonialism, this is still rejected by many, including the president of South Africa, Cyril Ramaphosa, who has stated that, *"In the values that it promotes, in the manner that it operates, and in the impact that it has on African countries, [we] refute the view that a new colonialism is taking hold in Africa, as our detractors would have us believe."*<sup>7</sup>

As China's partnership with much of SSA presents many mutual benefits, the size and scale of China's involvement in this region presents very significant financial crime risks to SSA, with the following being of particular note:

<sup>6</sup> See: <https://www.forbes.com/sites/wadeshepard/2019/10/03/what-china-is-really-up-to-in-africa/#7f353c259304>

<sup>7</sup> See: [https://focacsummit.mfa.gov.cn/eng/hyqk\\_1/t1591522.htm](https://focacsummit.mfa.gov.cn/eng/hyqk_1/t1591522.htm)

## China 🇨🇳 - Very Significant Potential Financial Crime Threats

- Due to the significant trading relationship, there is the risk of significant trade mis-pricing and trade based money laundering (TBML) as a result.
- There is also the risk that part of this trade will include gold, precious gems and other minerals, timber, fish and wildlife products and crops, which may have been supplied from producer countries in SSA, with the involvement, and to the benefit of, organised criminal gangs, including through corrupt activity, and/or forced labour.
- China's distant-water fishing fleet is the largest in the world, and operates more vessels in West African waters than any other nation, (with about 300 active vessels), benefiting from Chinese government subsidies fuelling the deep water Chinese fleet. Estimates suggest that approximately two thirds of the Chinese vessels fishing in West African waters could be fishing illegally.
- Chinese criminal gangs work with South African gangs controlling the illegal Abalone trade from South Africa.
- According to the UNODC, China was the main destination market for illegal ivory (at approximately 70%). China has since closed its domestic ivory market - which has had a positive effect - though ivory is still being smuggled to China, along with pangolin scales and rhino horn, and other animals including apes and chimpanzees.
- China is a major importer of timber, both for its own use and as a processor and re-exporter. China is a top 3 importer of timber from countries such as Cameroon, Ghana, Republic of Congo, and the DRC, where illegal logging dominates the industry.
- Hong Kong and Shanghai are major financial centres, and cities with the status as a destination for wealth, including Beijing, but also Macau as a destination for tourists and gamblers respectively, where significant illicit financial funds flow, including corrupt funds, funds from organised crime and funds evading and avoiding African taxes. Many companies dealing from advanced economies with less developed ones have the potential to exploit dominant trading relationships and benefit from one sided beneficial tax arrangements, that would not be possible with dealings between other more developed Countries.
- According to TI a number of countries are rated "Red" ("little or no enforcement") on rankings of Enforcement of OECD obligations on corruption, therefore increasing the risks that corruption is taking place. TI rate China as "Red".
- China is an exporter of 24% of arms to Sub-Saharan Africa (2014-2018), including to SSA countries rated as highly corrupt, for example Nigeria. It is estimated that 10% of the arms trade is likely illegal, and corruption has been linked to many historic deals,
- China is a main source / supplier of pre cursor chemicals to SSA, supporting illegal synthetic drug production.
- China is a main source / supplier of fake goods, including fake drugs and cigarettes to Sub-Saharan Africa.
- China operates a system of underground banks and networks which support the Chinese diaspora (including in Africa) to move "significant amounts of illicit proceeds" across borders, thus avoiding the scrutiny of funds movement, and potentially expose financial institutions' settlement networks in conducting their activities.