China in Africa
By
Dapo Ladimeji
Chair
IFA Africa Region[1]
Sept 2023

This is a brief overview of the background information on the relationship between Chinese investments and Africa.

It will be argued that much of the Western academic discussion on China's relations with Africa assumes that African tax professionals can neither read nor count. We will use a paper by Afton Titus[2], a South African proxy for Western academia, as a case study. As Africa's relations with China are older than their relations with the modern West we will begin with some clarification on that point. We will then look at Chinese investments and put Africa in the global context. At this point, a closer look at Afton Titus's paper will reveal the shoddiness and bias of much of Western academic work on China and Africa. Finally, we will look at the past role of Japan's investment and the role of Data and AI in the present world.

History

Much academic discussion implies that China and Africa have only recently been introduced. Here are excerpts from a recent book on the History of China and Africa relations[3]:
'There was also contact between China and Ethiopia from ancient times ' 'Remember ancient Ethiopia is Sudan)

'Evidence has been found of the posible cultural impact of Africa on China'
One scholar concluded ' It can be safely estimated that an African presence existed in China from a remote period …' A Chinese Queen /Principal consort has been excavated and found to have African features.

There are records of Africans in ancient Chinese classics, the hero of the Chinese classic 'The Water Margin' is Black.[4] Chinese trade sea routes spread from North Africa/Egypt to East Africa and Madagascar onto China. During the Song dynasty (960-1279) the Chinese were living and trading with Africans in Zanzibar.

During the Yuan dynasty (1279-1368) Sudan was the most important African trading centre. The famous trader, Karimi, who carried out trade with China during the Mamluk Dynasty of Egypt was neither Jewish nor Egyptian but Sudanese. China opened diplomatic relations with Somalia, Kenya, Egypt, Zanzibar during the Yuan.

---

[1] IFA is International Fiscal Association see ifa.nl
[2] (Titus, 2021)
[3] (Anshan, 2022)
[4] (Buck, 2004) according to her translation titled: All men are brothers, dating back to 1920's when such a translation would not have been fashionable.

Chinese Investments globally

Most discussions of China in Africa fail to put their data into any global context. We can begin by looking at Chinese investment in ports in Europe alone.

Ports:
China is building ports in London (largest automated port in Europe - London Gateway), in Piraeus, Greece, in Italy.
COSCO, the world's largest shipping company, owns minority stakes in container terminals in Antwerp (Belgium) , Las Palmas (Spain), Rotterdam (Netherlands), and majority stakes in Valncia (Spain), in Bilbao (Spain), Zeebrugge (Belgium). It is also majority owner of Piraeus (Athens),

China Merchants Group owns minority stakes in Rotterdam, Antwerp, Le Havre (France), Thessaloniki (Greece), Marsaxlokk (Malta)

CK Hutchinson holds stakes in Rotterdam, Stockholm (Sweden), Barcelona (Spain) Felixstowe (UK), Harwich (UK) Kent (UK) and Gdynia (Poland) (Hildebrandt, 2023)

If we turn to gross investment globally we find the following numbers:

External ODI: 2022

	US$ amount	no of deals
Europe	7.7bn	170
North America	6.3bn	82
Latin America	1.6bn	26
Africa	1.1bn	13
Oceana	1.4bn	45
Asia	10.8bn	171

(Chow, n.d.)

If we look solely at Brazil we see that in 2010 alone China invested US$13bn in Brazil. Altogether Brazil has received US$66.1 bn between 2010-2020. (Cariello, 2021)

Given the total of Chinese investments generally, it is hard to see anything out of proportion in Chinese investments in Africa. If it is trying to colonise Africa it must be trying much harder to colonise Europe and Brazil, and they willingly accept it.

Afton Titus

Afton Titus is typical of a certain Western academic point of view. She writes:

> *'If China's motives for extending substantial loans to Africa is not to colonise and entrap African countries in insurmountable debt, this leads one to question what their true motives are. The literature on this point is divided.'*[5]

Her paper is quite disgraceful in its level of academic deceit. She argues that China is eroding the African tax base by means of receiving tax free interest . She even goes so far as to state:

[5] (Titus, 2021, p. 3)

> *'Despite this, the author is of the view that because the loan financing constitutes such a significant part of Chinese investment in Africa, it is doubtful whether these potential benefits outweigh the potential risks to the African tax base.'*

Interest rate arbitrage:
One of the appalling aspects of Afton Titus paper is that there are no DTA country comparatives or even references to the text of the actual DTAs. According to Ethiopia's DTA with China (2019) Article 11 : (3) Notwithstanding the provisions of paragraph (2), interest arising in a Contracting State and paid to, or on loans guaranteed or insured by, the Government, a local authority or the Central Bank of the other Contracting State shall be exempt from tax in the first-mentioned State.'

Our first step is to look at the UK- Ethiopia DTA (2013) where Article 11 states:
'3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State shall be exempt from tax in that State if it is guaranteed by or paid by or to: a) the Government of a Contracting State, or a political subdivision, local authority or administrative-territorial unit thereof; or b) the Bank of England or the National Bank of Ethiopia.'

Clearly, if the DTA with China were eroding Ethiopia's tax base then the DTA with the UK would be doing the same thing. But is this talk of 'eroding tax base' at all meaningful? Given that there is always an interest rate arbitrage this discussion is misconceived. Financiers focus on their net returns. This means that any withholding tax on interest payments would be adjusted for by increases in the interest rate. This would cost Ethiopia more not less at the end of the day if she attempted to impose withholding taxes.

Afton Titus writes:

> *'The fact that all of China's African DTA partners have agreed to exempt interest payments on government-related loans points to an unequal bargaining position between China and its African partner – something which is unlikely to change in the future'.*[6]

This nonsense is exposed already when we showed that the same clause is in Ethiopia's DTA with the UK.

International tax concerns over interest charges arose because of the corporate habit of loaning money to subsidiaries as a form of long-term funding. If interest were tax free and tax deductible then this would be a way to arbitrage around dividends which would be subject to withholding tax and would also reduce the taxable profit in the foreign country. If the lender were a large Chinese bank or a government agency there is no risk of arbitrage with operating profit. It is the possibility of such arbitrage where large Western MNCs use loan financing to fund their in-country investments that constitutes the risk to the tax base.

[6] (Titus, 2021, p. 9)

Afton Titus writes:

> *'Although it has been commented that China's loans do offer lower interest rates than that of the loans African countries could access from other institutions (Alves, 2013), the author notes that interest must nonetheless be paid and, in this context, may constitute a risk of erosion of the African tax base*[7].

This is complete nonsense. If the Chinese loan is at a lower interest rate than otherwise available then it is not being lent at any extortionate rates. Taxing it would therefore be counterproductive. Further, she suggests:

> *'African countries should consider implementing the OECD's BEPS Action 4 by imposing interest limitation rules on third party debt and not only related party debt arrangements.'* [8]

This is extraordinary. Interest limitation for related parties is an attempt to force the investment into being made as equity capital rather than as loan capital and since these foreign banks do not have an equity stake in the construction companies this suggestion is plainly absurd.

But let us look more closely at the economics here. Domestic infrastructure profit margins are between 8% and 15%. Given the additional risk of overseas investments, one would expect the profit margins to be between 20 -25%. Any enterprise dealing regularly with overseas investments has to factor in the occasional but regular, in an actuarial sense, unexpected disaster such as war, flooding, political unrest etc.

A project for $1 billion would be expected to produce a profit for the Chinese construction company of $200m. At a 25% tax rate this is a potential local tax of $50m. If it were entirely loan financed by a bank or government agency there would be interest on $1bn. The Chinese prime rate in August 2023 was 4.2% for 5 year money. A charge of 7% to the project would not be unreasonable. This would generate interest payments of $70m. Withholding tax is a maximum of 5% in the UK/Ethiopia DTA and 7% in the China/Ethiopia DTA. This would generate a withholding tax of between $3.5m and $4.9m.

Afton Titus statement that it is doubtful that the benefit of the billion dollar investments outweighs the loss of $5m in withholding tax would constitute one of the most absurd statements in international tax for many years, except that it is exceeded shortly afterwards. Afton Titus recommends that:

> *'African countries consider renegotiating their DTAs with China so as to better protect their tax base from the potential erosion effect of exempt interest payments on China's government related loans.*[9] *'This paper recommends that Africa lean into the increasingly important space in geopolitics it is occupying and push for the interest exemption to be removed from its DTAs with China.'* [10]

If the interest rate clause in the DTA is harmful to Africa then should it not be changed in ALL Africa's treaties? The idea of changing the clause just for China would constitute gross discrimination. The suggestion is absurd beyond belief.

No strings attached:

We must address Afton Titus's comments on China's lack of conditionality:
'China's «no strings attached» loan provisions allows many African countries to avoid the governance transparency requirements normally imposed by institutions such as the World Bank and the International Monetary Fund'[11]

Firstly, we should acknowledge that Ms Titus admits the IMF 'imposed' their conditions on African governments. She apparently has no issues with that, while nevertheless accusing China of imposing conditions in respect of its DTAs. But there is a fundamental deception here. IMF conditionality is primarily

---

[7] (Titus, 2021, p. 8)
[8] (Titus, 2021, p. 10)
[9] (Titus, 2021, p. 10)
[10] (Titus, 2021, p. 12)
[11] (Titus, 2021, p. 9)

about forced privatisation, opening of markets to foreign capital, reduction in workers rights and cutting social provisioning budgets. Oxfam has written many reports[12] showing the lack of transparency in IMF proposals and their damaging impact on the recipients. There is of course a fundamentally anti-democratic issue and breach of sovereignty issue about the IMF making fundamental social policy decisions a pre-condition for their loans. Clearly, these conditions do not actually improve the ability of the country to repay the loans but do enforce the neo-liberal agenda. To recommend a foreign agency to 'impose' conditions on the government of one's own country merits being called 'treason'. This is Afton Titus's position. Her loyalty is clearly not to her own country's government but to another party which is what one would expect for a 'proxy'. There are many in South Africa who act as proxies for a foreign power. She is not alone.

How can we summarise the paper and the attitude behind it? It is scarcely credible that Afton Titus, a university law teacher with a PhD from Holland, does not understand interest rate arbitrage, that she does not understand that DTAs must be understood in comparison with other DTAs of the same country. It therefore follows that it is her readers she assumes do not understand. In other words, her paper does not reveal her ignorance but her belief that African tax professionals cannot spot the absurdity of her claims, cannot see the requirement to compare clauses of DTAs with similar clauses between other countries, and that basically she believes that African tax professionals are not only stupid but cannot read or count. This is not entirely unusual for many Western academics.

Japan:

This comment here is more of a footnote to history. In the early 1970's Japan offered to invest in a major way in Nigeria specifically and Africa generally. Nigeria, under advice from the US and UK, turned this offer down seeking to rely on the US and UK investments instead. Subsequently, the US and UK accepted massive investments by Japan into their own economies.

AI and Data

A matter of great importance for the future of any country is the role of Data and AI. Africa has not made appropriate plans on how to tax and regulate these matters. There are really only two players in this market: China and the US. The high stakes have been confirmed by Sir Richard Moore, head of SIS in a public speech. [13]

His speech needs careful parsing to fully understand. One of the most important statements is where he says MI6 spends most of its time not on Russia or Ukraine but on China! Also, I will explain his focus on AI and data. There is a widespread belief that whoever tames AI first will rule the world. Ten years ago, China believed it was 20 years behind the US. Africa is one of the few unmapped spaces remaining and thus a potential bargaining chip with China for Africa. Regulation of AI is considered essential to protect a country's citizens. International tax offers the means of enforcing relevant parties to register inside the jurisdiction and therefore become subject to regulation. Our past experience of European and US regulation is that left to their own devices these countries will protect their own citizens and encourage predation of African citizens. Never again. Plans and proposals are being currently discussed and debated relating to the regulation of

[12] (*IMF Must Abandon Demands for Austerity as Cost-of-Living Crisis Drives up Hunger and Poverty Worldwide*, 2022) (*Behind the Numbers*, 2022) (*For Every $1 the IMF Encouraged a Set of Poor Countries to Spend on Public Goods, It Has Told Them to Cut Four Times More through Austerity Measures*, 2023)

[13] (Moore, 2023) a transcript is available.

AI and in particular generative AI. Africa must sit at the table and negotiate not only with the West as a proxy for the US but also with China.

No serious consideration of the future of the relations between China and Africa can fail to address the issues of AI and Data.

Conclusion

We are living in a world of major changes as we speak. Africa must not only respond to the world as it is, but more importantly to the world as it will be. China will inevitably be a major player in that world however it turns out. Africa intends to become a major player in this new world and we must ensure that no impediments are placed on the path to Africa's rejuvenation. OECD proposals for Pillar 1 and 2 are a minefield of plans to trip up Africa in the future should it seek to rise. The days when Africans could not understand what was going on are well and truly over. Africa's recent past may be embarrassing but its future will be awe-inspiring.

References:

Anshan, L. (2022). *China and Africa in Global Context: Encounters, policy, cooperation and migration*. Routledge. https://ereader.perlego.com/1/book/3259907/9

Behind the numbers: A dataset exploring key financing and fiscal policies in the IMF's COVID-19 loans. (2022, May 25). Oxfam International. https://www.oxfam.org/en/international-financial-institutions/imf-covid-19-financing-and-fiscal-tracker

Buck, P. S. (2004). *All Men Are Brothers* (Translation edition). Moyer Bell Ltd ,U.S.

Cariello, T. (2021, September 6). Chinese investments in Brazil have grown rapidly and are long-lasting. *Dialogo Chino*. https://dialogochino.net/en/trade-investment/45887-chinese-investment-in-brazil/

Chow, L. (n.d.). *Overview of China outbound investment of 2022*. Retrieved 30 July 2023, from https://www.ey.com/en_cn/china-overseas-investment-network/overview-of-china-outbound-investment-of-2022

For every $1 the IMF encouraged a set of poor countries to spend on public goods, it has told them to cut four times more through austerity measures. (2023, April 13). Oxfam International. https://www.oxfam.org/en/press-releases/every-1-imf-encouraged-set-poor-countries-spend-public-goods-it-has-told-them-cut

Hildebrandt, T. (2023, January 12). Chinese Stakes in European Ports: Geopolitical Threat or Mere Business Venture? *Chinaobservers*. https://chinaobservers.eu/chinese-stakes-in-european-ports-geopolitical-threat-or-mere-business-venture/

IMF must abandon demands for austerity as cost-of-living crisis drives up hunger and poverty worldwide. (2022, April 19). Oxfam International. https://www.oxfam.org/en/press-releases/imf-must-abandon-demands-austerity-cost-living-crisis-drives-hunger-and-poverty

Moore, S. R. (2023, July 19). *Speech by Sir Richard Moore, head of SIS, 19 July 2023*. GOV.UK. https://www.gov.uk/government/speeches/speech-by-sir-richard-moore-head-of-sis-19-j uly-2023

Titus, A. (2021). *The Impact of Chinese Trade and Investment in Africa on the African Tax Base – More Costs Than Benefits?* (SSRN Scholarly Paper 3788846). https://doi.org/10.2139/ssrn.3788846