China's Growing Economic Role in Africa

Findings and policy implications of the AERC China-Africa economic relations project[1]

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How should Africa engage strategically with China to take maximum advantage of the opportunities and confront the challenges posed by the rapidly expanding economic role of China in Africa? That was the key research question of the recent AERC China-Africa project. The studies focused on trade, investment and aid.

African countries should establish trade complementarities with China and seek to establish a trade agreement with preferential market access to China. In order to gain preferential access to the Chinese market, African countries should leverage Chinese FDI. This should go along with the implementation of export promotion policies and programs necessary to increase and retain competitiveness of manufactured exports.

Chinese investments and construction projects should be required to utilize local labor and other inputs. Appropriate incentive schemes and support by national governments that promote joint ventures and encourage sub-contracting to local firms are also needed. Only investments projects that will enhance national economies should be sought.

African countries should negotiate better terms for aid delivery to promote partnership between Chinese companies and their domestic counterparts, increase local sourcing of inputs and enhance outsourcing arrangements including subcontracting with local entrepreneurs. Where and when local capacity does not exist, China should be encouraged to incorporate initiatives to build local capacity as part of the aid package.

Introduction
The spectacularly rapid and sustained expansion of the giant economy of China has been associated with intensified economic relations with Sub-Saharan African (SSA) countries. These twin developments are, in turn, associated with both opportunities and challenges for African countries.

The AERC China-Africa project aimed to enhance the understanding of these relationships, and the opportunities and challenges for the development prospects of the African countries, as well as an articulation of the policy measures that individual African countries may consider in this regard. Twenty one scoping studies were commissioned to determine the size, structure and significance of Chinese relations with African countries and to provide a reliable basis for the selection of countries where specific in-depth case studies could be conducted.

The research question was how to engage strategically with China with a view to taking maximum advantage of the opportunities presented by China and confront the challenges the phenomenon poses to African countries. Thus, the approach was to conduct studies that would inform the strategies and policies that specific African countries can consider in their relations with China.

All the 21 scoping studies and 20 in-depth studies used both quantitative and qualitative methods of analysis such as a descriptive statistics, simulations, and case studies of particular firms. The data was largely obtained from discussions with key informants, official documents, theoretical literature, as well as critiques and discussion papers from a number of sources including the media.

Trade
Trade flows between Africa and China have grown rapidly, with a significant acceleration in the rate of growth starting in 2000. China is now Africa's third largest export market destination, after the US and EU, accounting for 16 percent of Africa's total exports in 2006. Exports to China from Africa are dominated by fuels and mineral products. In 2006, fuels accounted for 73.3%, ores and other minerals 8.0%, agricultural products 6.8% and manufactures 6.5%.

Natural resources play a key role in the import requirements of China. Thus, China's imports from Africa are heavily concentrated in the relatively few countries with export petroleum and minerals such as Sudan, Congo, Angola, Zambia and South Africa.

Africa's imports from China have been dominated by manufactures, accounting for 93.4% in 2006, mostly machinery and equipment (36%), and textiles and clothing (25%). China's share in total imports to African countries has been significant in Sudan (20.8%), Madagascar (17.8%), Guinea (15.3%), Nigeria (13.0%), Cameroon (11.1%), South Africa (11.0%), and Zimbabwe (10.8%).

By and large, China exhibits comparative advantages in a much broader range of products than most African countries. Thus, the products of some African countries have been displaced in domestic and third-country markets by much cheaper Chinese goods.

Policy recommendations:
African countries should establish complementarities with China. The aim should not be to compete with China. African countries should support their domestic industry as much as possible in terms of information and policy environment. Moreover, support is needed for local entrepreneurs to develop capacity for participating in the Chinese production sharing networks and partner with the Chinese production networks.

African countries should seek to establish a trade agreement, with preferential market access to China, following the recommendations of the 2009 Forum on China-Africa Cooperation (FOCAC) to expand zero-tariff treatment to 95 percent of products from African Least Developed Countries (LDCs).

In order to gain preferential access to the Chinese market, African countries should leverage Chinese FDI. This should go along with the implementation of export promotion policies and programs necessary to increase and retain competitiveness of manufactured exports. Capacity building schemes are also needed to develop and train the needed manpower to attract Chinese manufacturers seeking to take advantage of lower wages and competent labor force outside China. Chinese support can also be leveraged for establishing special trade and economic cooperation zones. Support of Chinese authorities should also be sought in encouraging all operators in these zones to establish structured partnerships between African and Chinese firms to include Africa into the Chinese export production sharing network, facilitate technology transfer and increase local value addition to African exports.

In negotiations with China, African countries should take measures to reduce negative trade effects, such as voluntary export restriction for China. Moreover, the national standard bodies should be strengthened to regulate the quality of imported goods and enforcement of sanitary and phytosanitary measures to control import of harmful products.

Investment
Although Foreign Direct Investment (FDI) from China has been increasing in SSA, it remains relatively small, exceeding 5% of total FDI in SSA only in 2000. Chinese FDI flows to Africa are geographically dispersed with five countries (i.e. Sudan, Algeria, Zambia, Nigeria and South Africa) accounting for 56 percent of

the FDI stock in 2005 according to UNCTAD data. These flows are concentrated in resource rich countries like Nigeria, Angola, Cameroon, Ethiopia, South Africa, Uganda and Zambia; and in certain sectors including oil and minerals, construction, agriculture, manufacturing, services and retail.

Manufacturing investment is primarily in labor intensive activities. Garments have been the dominant and they are intended to take advantage of Africa's preferential access to US markets under the AGOA scheme as is the case in Ethiopia, Ghana, Kenya, Madagascar and Mauritius.

Large investments have been channeled towards infrastructure, especially in telecommunications and the construction of roads and railways as well as stadiums and government buildings.

There have been limited benefits realized from Chinese FDI in most SSA with the possible exception of South Africa and Mauritius. This is because of the absence of joint ventures with local counterparts, lack of out-sourcing some of the operations to local producers, the use of Chinese rather than local labor; and environmental damage owing to the use of 'dirty' technology.

Policies: Chinese investments and construction projects should be required to utilize local labor and other inputs. Appropriate incentive schemes and support by national governments that promote joint ventures and encourage sub-contracting to local firms are also needed.

Only investments projects that will enhance national economies should be sought. Infrastructure development agreements must be fine-tuned in order to foster employment equity, skills development and technology transfer. Development of capacity for formulating and enforcing environmental standards is another priority area.

Aid

Chinese aid as a share of overall development assistance to SSA countries is relatively small although it has been increasing recently. The aid is often being utilized to achieve China's strategic objectives.

There is almost no program aid with the exception of debt cancellation. The overwhelming bulk of the aid is for infrastructure projects. Chinese Aid is highly tied; virtually all inputs, including labor, come from China and projects are executed by Chinese companies.

Chinese aid is unconditional with regard to policies, which make it attractive to African governments. The only exception is that no Chinese aid may go to countries with diplomatic ties with Taiwan.

African countries have to increase capacity building efforts of their workforce and use China's aid to build local technical and human capacity. The opportunity presented by multiple sources and rising volumes of aid should be used as leverage to negotiate better terms and ensure that development assistance is driven by the needs of the national development agendas.

African countries should negotiate better terms for aid delivery to promote partnership between Chinese companies and their domestic counterparts, increase local sourcing of inputs and enhance outsourcing arrangements including subcontracting with local entrepreneurs. Where and when local capacity does not exist, China should be encouraged to incorporate initiatives to build local capacity as part of the aid package.

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[1] This article is based on an AERC Research Project on China-Africa Economic Relations coordinated by Professors Ademola Oyejide, Michael Morris and Francis Mwega

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