

CHINA-AFRICA COOPERATION - THE STAKES

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For most of the past five decades African countries were locked out of international capital markets. As a result, they have largely been spared the twin woes of the 2008 financial turmoil and subsequent world economic downturn. The continent's economies have experienced a slowdown, but not a recession. Indeed, according to McKinsey & Company, in 2009 Africa was the third-largest contributor to world economic growth, after China and India.



Several factors have contributed to this upturn. Urbanisation has created a dynamic informal sector. Increased exports revenues and productive investments have played vital roles. Improved governance, higher food production, increased inter-regional trade, debt cancellation, telecommunications and housing markets have helped. Transfers from more than 30 million African migrants have contributed as well.

Africa's growing young population is a key asset. There is rapid urbanisation everywhere in Africa with 40 per cent of Africans already living in cities. This has created a dynamic informal sector unconnected to the modern economy. Although marginalised by African officials, this cash-based economy is a major contributor to the continent's productive capacity. It employs more than 90 per cent of the workforce and is home to 75 per cent of the retailers.

In the next decade, Africa will be the only continent where the working age percentage of the population will be still growing. This will continue to drive mass urbanization. The number of households with earnings over \$5,000 – considered a threshold for discretionary spending – will rise from 85 million to 128 million. By 2045, there will be 1.1bn Africans of working age, more than either China or India, and the combined GDP of the largest 11 African economies should reach more than \$13 trillion, surpassing Brazil and Russia (but not China or India).

Regarding trade, emerging-market demand has pushed up commodity prices. The continent holds possibly more than 10 per cent of global oil reserves, 40 per cent of the world's gold and a third of world reserves of cobalt and base metals. Meanwhile, Africa's agricultural potential – 60 per cent of the world's total amount of uncultivated arable land - has barely been touched. Long-term global demand for commodities, as well as land and labour is unlikely to diminish.

Emerging countries such as Brazil, India, and China have provided a platform for increased exports and the inception of a cooperation model based on trade, investment, and technology transfer, rather than "aid." China particularly, has played a leading role in this turnaround. It has struck infrastructure-for-resources bargains across Africa over the past decade, as it seeks crude oil, minerals and metals to fuel its breakneck economic expansion. China-Africa trade alone increased from \$10 billion in 2000 to \$107 billion in 2008. In 2009, China rose to become South Africa's largest trading partner. During his recent visit to Beijing, Jacob Zuma, the South African President, announced that he had formally asked China to support his country's pledge to become the fifth member of the BRICs (Brazil, Russia, India, and China).

African countries' macroeconomic performance has improved dramatically by the implementation of successive structural adjustment programmes. Inflation has been halved since the 1990s. Foreign-exchange reserves have increased by 30 per cent. Public finances showed a 2.8 per cent-of-GDP surplus in 2008, compared to a 1.4 per cent-of-GDP deficit in 2000-2005. Savings rates are between 10 per cent and 20 per cent, and external debt has decreased from 110 per cent of GDP in 2005 to 21 per cent in 2008. Since 2000, sub-Saharan African countries have achieved average economic growth of 5-7 per cent.

As a result, annual flow of foreign direct investment rose from \$9 billion in 2000 to \$62 billion in 2008 – relative to GDP almost as large as the flow into China. This has translated into a steady flow of investment in banking, oil and gas production, mining, transportation, electricity generation and transmission, telecommunications, and other infrastructures. When oil and gas investments are stripped out, South Africa, the continent's industrial and financial centre, is now the largest investor in the rest of the continent, not China, or the US.

China invested 5.5 billion in South Africa's Chartered Bank, the largest of its kind worldwide. In Nigeria, China spent up to \$23 billion to build oil refineries and other petroleum infrastructures to secure 6 billion barrels of crude reserves. A consolidated Nigerian banking sector is spreading its wings all over the region. Nigeria, with a population of 180 million or more, could, if it got everything right, be bigger than any of Canada, Italy or South Korea by 2050.

During a recent Beijing six-day visit, Ghanaian President, John Atta Mills, signed a \$10.4 billion concessionary-loan agreement for various infrastructure projects, payable over 20 years, highlighting China's strong interest in resource-rich African countries. Ghana is preparing to tap massive oil fields that are expected to turn it into one of Africa's biggest energy producers.

This new pattern of cooperation has encouraged investors from elsewhere, including Europe and the US, to rethink their African investment approach prompting reviving terms of trade and a growing interest in regional markets.

However, regarding Africa-China cooperation, there are three types of political and economic imbalances undercutting most of the benefits that could derive from the burgeoning of investment and trade.

The first imbalance is political. In the wake of the Second World War, there were two competitive brand of leadership that sought independence from the western colonial powers. The "progressists", allied to the communists, and the "moderates", supported by the West. The former advocated the abolition of colonial heritage and the creation of the United States of Africa. They were defeated. The latter, whose agenda was to maintain the status quo under the stewardship of the former colonialists and institutions such as the IMF and the World Bank. African countries were assigned the role of supplying basic commodities to western allies. In return, they were given free hand to loot their countries and abuse their people.

There is no doubt that this system worked to the benefit of western countries and their multinationals. Today, they pursue the same objective in seeking collaboration with countries such as China, India, Iran, Brazil or Venezuela. So, when China's stated African policy is to refrain from meddling in African antics, it becomes music to the ears of such leaders. No

wonder then that Omar Bongo and Denis Sassou-Nguesso were among the best-received African leaders in China. The first plundered his country, Gabon, to become one of the richest men in the world while bankrolling French politicians, and was succeeded by his own son. The second has been spending a fortune out of Congo's public money to finance a lobbying exercise in the United States in order to redeem his notorious well-documented corruption.

Times are changing and a new brand of leadership, keen to serve their countries, is taking over in many African states including Mauritius, Botswana, Cap Verde, Seychelles and Namibia.

The second imbalance relates to the development model assigned to African countries as exporters of raw materials with no value added whatsoever, and importers of finished goods. Nations develop their economies by moving up the value chain, away from churning out commodities and towards manufacturing. This is the development strategy adopted by China, the US, the European Union's member states, and the East Asian countries. All of these countries have imposed capital controls and regulated inward foreign investment in the early stages of their economic development. Sub-Saharan Africa is no different.

With regard to China-Africa cooperation, the focus must, therefore, be put on diversifying African economies, and enhancing the productive capacity of domestic suppliers. This will mean designing future partnerships to ensure that local businesses benefit from technology transfer and training, thereby generating higher value-added in domestic production and exports.

The third imbalance relates to Africa's "balkanisation". From November 1884 to February 1885, the imperialist great powers of Europe met in Berlin. The agenda of the meeting was what Leopold II, the monarch of Belgium, had then dubbed "the sharing of the African cake". The General Act of the Berlin Conference formalised the 'Scramble for Africa'. This had divided the continent into fifty irregular countries, whose boundaries have acquired a legacy of political fragmentation that could neither be eliminated nor made to operate satisfactorily when they gained independence in the 1950s and '60s. The continent's infrastructure is still geared towards exports. Railways and roads very often lead to marine ports rather than linking countries over land to facilitate trade between them.

A recent study carried out by Rwanda's private sector business association found the cost of trucking a container from Mombasa on the Indian Ocean coast to Kigali, 1,500 km and three border crossings away, can be three times the price of shipping the same container from the US to Africa. Bribery at weigh-bridges and roadblocks add more than \$1,000 to shipping costs. The same story is repeated across Africa. The continent's division has become a source of income for corrupt members of the elite. What interest would they have in changing a system in which they thrive? Yet, if African countries spoke with one voice, traded more among each other, and strengthened regional co-operation (which includes keeping the peace), they would go a long way towards overcoming the political frailties and economic fragmentation associated with the borders inherited from colonialism.

Presently, trade among African countries accounts for only about 10-12 per cent of the continent's exports and imports. By lowering trade barriers, Africa's regional groupings will deliver a real catalyst to economic growth, attract foreign direct investment, and encourage cross-investment between member-countries.

In the era of globalisation, economic integration and increased intra-regional trade are the best entry point into global markets for all countries. At this stage of their commodity export

driven economic development, the priority for African countries should be long-term economic integration.

Thankfully though, the approach to integration is beginning to change. Trade statistics do not capture that vital bigger force, the informal economy. A large proportion of intra-regional trade is carried out by small and medium enterprises from the informal operators. They are exporting all sorts of goods and services around Africa. Their wares could be found everywhere from Kisangani in the Democratic Republic of the Congo to Dakar on the west coast. The integration which is happening has been driven less by bureaucrats, and politicians and more by business people – from suited executives to scrappy wheeler-dealers – who have spotted opportunities across borders and gone out to grab them.

Moreover, several African countries have received ratings from credit agencies, which have opened up global financial centres to them. In some cases, these ratings have proved equivalent to or higher than those of countries such as Turkey or Argentina. Stock exchanges are being established across the continent. Over twenty-three stock exchanges are currently operating in Africa. Their market capitalisation rose from \$245bn in 2002 to \$1trillion at the end of 2009, representing 2 per cent of world market capitalisation. However, combined, they would represent the fifteenth largest in the world. With a volume of \$ 800 billion, the Johannesburg Stock Exchange alone accounts for 80 per cent of the total and ranks 19th worldwide. Nigeria plans to demutualise its stock exchange with the view of establishing it among the prime destinations for frontier investors.

Telecoms companies are harmonising their operations to benefit from economies of scale. Infrastructure projects fostering regional integration are given priority by regional institutions such as: the African Development Bank, the East African Community (EAC)¹ the Economic Community of West African States (ECOWAS)², the Southern African Development Community (SADC)³, the Common Market for Eastern and Southern Africa (COMESA)⁴. For the time being, China-Africa ties are mainly articulated around bilateral cooperation. Furthering this cooperation to let it flourish fully will require giving to multilateral cooperation an overarching priority. This will entail China engaging not only with the best leaders, but also with the best institutions that the continent can offer.

Some western observers – and some Africans, too – have decried China's burgeoning relationship with the continent as a new form of colonialism, based on the search for minerals. Such criticism is largely misplaced. Western-led development strategies did not break the cycle of under-development in Africa. Let's take Niger for example. France, the former colonial power, and the largely state-owned French nuclear engineering giant, Areva, enjoyed a virtual monopoly on the country's uranium mines. For the last fifty years Niger was earning more from exporting onions than from the exploitation of its uranium. All Niger former Head of States, from the first, Hamani Diori to the last Mamadou Tandja who dared to

¹ Kenya, Uganda, Tanzania, Rwanda, Burundi

² Nigeria, Ghana, Côte d'Ivoire, Senegal, Niger, Gambia, Guinea, Mali, Guinea-Bissau, Liberia, Sierra Leone, Benin, Togo, Cape Verde, Burkina Faso, Mauritania.

³ South Africa, Angola, Botswana, Lesotho, Malawi, Zimbabwe, Zambia, Mozambique, Swaziland, Tanzania, Namibia, Mauritius.

⁴ Burundi, Comoros, D.R. Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe

question this state of things were deposed by military coups sponsored by France. Now China is giving the state a breathing space and a new lease of life. Niger ranks easily in the top 10 African countries with Chinese investment in oil, uranium and hydroelectric power - potentially worth billions of dollars.

Former colonial powers are in a weak position to lecture China and Africa. And, having preached the virtues of competition, the West cannot really grumble about being outbid by China in the race for natural resources in Africa.

Now, we will be witnessing two interlinked dynamics regarding China-Africa cooperation. On one hand, as China world economic weight increases, its labour costs rises and its currency appreciates as well. To ward off world competitors, Chinese manufacturers will look at Africa as a base for production to keep their competitive edge. The infrastructure that the Chinese are building will also have positive spin-off effects outside of natural resources for African as well as Chinese industries. In that sense, Chinese economic interests in Africa are tied to the continent's political and economic development.

A gathering such as this conference on China-Africa cooperation will go a long way in achieving its goal if it can help fostering a constructive and positive engagement between China and the best African leaders the continent can offer as well as the best African prospects.

Still, all is far from being rosy in China-Africa cooperation. A few things pretty unpalatable are going on. There is a feeling of Chinese invasion; Chinese contractors brought in Chinese manpower, depriving Africans of much needed job creation. The informal sector was the preserve of the Africans until they were battered by competition from Chinese. In a matter of a few years there are more Chinese in Africa that there have ever been Europeans and their isolation from the bulk of the population is perceived as racist. Besides, in Chinese consulates, African visa seekers are vociferous about visa applications being turned down for no valid reasons. Chinese products for African markets are generally cheap but at the expense of quality. Their rate of replacement is such that one wonders if, in the end, their cheapness is not just a mere lure.

Since the "reform and opening up" began, under Deng Xiaoping, in 1978, China's politics may be socialist within its boundaries, but its economy is hard-nosed and capitalist-driven. It is through its multinationals that China strikes deals all over the world. The Bandung spirit is over. Cooperation between China and Africa can no longer be put into the historical context in which it had developed after the triumph of China's revolution in 1949, and the ensuing support that Africa has received from the Chinese in its own struggle for emancipation and development. Profits and geopolitical interest now dictate China's behavior. The Chinese government takes a long-term view of China's own development. The Chinese government takes a long-term view of China's own development. Africa should apply the same long-term logic to its development, take measures to correct present imbalances, and implement the right environment for sustainable growth. This will depend on stable macro-economic policies focusing on economic integration, food security, low inflation, reduced debt, stable governments, enhanced rule of law, improvement of basic levels of health and education, spread of mobile telephony and internet use, and last but not least, eradication of corruption.

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