

CHINA-AFRICA ECONOMIC PARTNERSHIP: a win-win game?

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INTRODUCTION

Development in China-Africa economic relations

China's rapidly expanding engagement in Africa in the fields of trade, investment and development cooperation has become a hotly-debated topic in recent years and attracted great attention at international level. Historically, Sino-African relations date back to ancient times, but formally it wasn't until the founding of modern China, that inter-governmental relations between China and African countries were inaugurated. A deeper look at the bilateral relations between the two counterparts shows that, over the subsequent half-century, the trajectory of Sino-African relations went through several fundamental shifts. During the earlier decades, China's African presence benefited from a shared history as an object of European imperialism and its ideological commitment to anti-imperialism and national liberation, and it provided moral, financial and political

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support to African countries for their liberation struggles and fights for independence.

However, a reorientation in China's policy towards Africa has taken place in recent years by shifting from Cold War ideology to giving a priority to economic cooperation, markets and spheres of influence through investment, trade and military assistance. This new orientation has found institutional expression in the forum on China-Africa cooperation (FOCAC) in 2000, housed within the ministry of foreign affairs to coordinate Chinese foreign policy objective toward Africa. Also, in January 2006, China released its first major policy document on its relations with the continent. It lists 30 initiatives in the political field; in the economic field; in education, science, culture, health and social aspects, in peace and security.

Reviewing trade and investment figures on CAEC indicates that China is moving rapidly ahead forging ties with African countries. Since carrying out the Reform and Open-Up policy in the 1980s, China has attached great importance to trade cooperation with African countries and so trade has grown at an annual average of 3,6 percent. Bilateral total export and import volume grew throughout the 1990s, when, for a number of years, it was not unusual to see increases of more than 40 percent. More recently, the value of trade between China and Africa has increased by 45 percent from 2007 to the end of 2008. China has also become Africa's third largest trade partner. Imports from Africa to China increased by 54 percent between 2007 and 2008, with exports from China to Africa increasing by some 36 percent. In absolute values, between 2006 and 2010, trade surged from US\$55 billion to roughly more than US\$106 billion. Furthermore, by the end of 2005, China had entered into 62 intergovernmental agreements on trade, investment, cultural exchanges and cooperation with 45 African countries.

Parallel to economic relations, the developmental aspects have also progressed rapidly. Steps are taken by the Chinese government to encourage the view of China's development contributions to Africa. By December 2006, China had given over US\$ 5,5 billion in aid to African countries. At the 2006 Summit FOCAC, China pledged to double aid to Africa by 2009, and to give Africa US\$2 billion in preferential buyers' credits over the next three years. China's Export and Import Bank, established in 1994, extended its export buyers credit market to Africa in 2005 and by the end of that year, had committed US\$800 millions concessional loans to cover 55 projects in 22 African countries. Moreover, at the November 2009 FOCAC meeting in Sharm-el-Sheikh (Egypt), China made a number of further promises to the African continent, among them: in the next three years provide \$ 10 billion of preferential loans to African countries, which will be used mainly to support infrastructure and social development projects, and increase size of china- Africa development Fund to US\$ 3 billion to support the expansion of investment from Chinese businesses to Africa.

ONGOING DEBATE ON CHINA-AFRICA PARTNERSHIP

CAEC is evolving debate on what this new partnership means for Africa. Questions are being raised by a range of different stakeholders on what opportunities and challenges China's increased engagement brings for a number of issues including democracy, good governance, the management of natural resources and human rights in Africa. Reactions range from being naïvely positive to fierce criticism. It is at times difficult to separate what is based on facts, driven by a genuine concern for development, from what seems to be part of a general tendency to see China as a threat. The following are some major issues of the discussion:

Western suspicions and the Neo-colonialism

In much of the debate in a western context on China's role in Africa, China is often viewed as a competitor to industrialized countries for access to Africa's natural resources. Some analysts have already begun to accuse it of "neo-colonialism". Its search for energy and minerals in Africa is often equated to the "scramble for resources" that led to western colonialism during the second half of the 19th century. Another dimension is that as a legacy of the western colonial era, the Western countries used to consider Africa in terms of their spheres of influence. So, with the Chinese presence in Africa that spreads and deepens, it is increasingly claimed by western scholars and analysts that China's interest in Africa is fueled by its economic growth and development that require more energy and raw materials which Africa can provide. A cursory look at China's energy and oil imports shows that it imports between 25 per cent and 30 per cent of its oil from sub-Saharan Africa. In addition to sourcing oil supplies from Africa, it has also pursued long-term energy supply agreements with a number of African States. Moreover, oil, gas and other mineral resources although appear to dominate trade between China and Africa, Chinese businessmen are now increasingly looking at Africa as a new export market for other products. As this business and trade relationship has become more prominent, it has generated interest among and commentary from the Western colonialists. In a report to the US congress in 2005, the secretary of defense observed that "China has used economic aid, diplomatic favors and, in some cases, the sale of military technology to secure energy deals". However, some African leaders and many African scholars perceive China's activities as a welcome trend. Scholars have observed that, in recent years, such activities have

added value to hitherto undervalued Africa resources, especially in agriculture. According to a United Nations Economic and Social Report of 2006, entitled “Overview of the Economic Report on Africa 2006: Recent Economic Trends in Africa and Prospects for 2006”, African economies grew by up to 5,3 per cent. This growth rate has been consistent in recent years and may in part be fuelled by the renewed engagement with China.

Also, while China imports oil from Africa, it exports electromechanical and high-tech products that satisfy critical needs in Africa, creating a rough equilibrium in the economic and trade relations. The oil drilling and exploration rights that China has obtained in Africa have been obtained through international bidding mechanisms in accordance with international market practices, posing no threat to any particular country. Rights to oilfields in Sudan and Nigeria were purchased by Chinese companies after the withdrawal of competitors.

For China... it is all about “Mutual Benefits”

The language that China uses in negotiations and agreements with Africa mostly underlined the two sides: agreed, welcomed, reaffirmed, recognized, decided, etc. This is clearly different from the donor language that normally forms part of bilateral and multilateral agreements between Africa and its traditional Western allies and development institutions.

The idea of mutual benefits was always emphasized in these new Chinese policies, while it argued that the rich natural resources of Africa help satisfy China’s increasing demand for raw materials and energy. Conversely, Chinese energy investment in Africa is often accompanied by aid for infrastructure, which helps to attract

more foreign investment in Africa. Also, China has become one of the major exporters of cheap Chinese-made products to Africa's domestic market. Moreover, China has become a more attractive partner, enjoyed larger profits and invested in infrastructure (hydro-electric plants, pipelines, factories, hospitals), especially in potential markets where western firms are deterred by political considerations such as sanctions or political instability.

An example of that is the Chinese companies that have been involved in the oil production industry in Sudan for roughly a decade; China not only now imports a great percentage of Sudan's total oil exports, but these companies also help Sudan to establish a complete and viable oil export industry from exploration, production and refining to sales of crude oil, gasoline and petrochemical products. So, some African scholars acknowledge China's role in helping African economies to achieve long-term growth through the principle of mutual benefit. One particularly poignant analysis explains, that, unlike Belgium, which built roads solely for the extraction of resources in the Democratic Republic of Congo, China is constructing or improving roads that are suitable not only for the transport of resources but which citizens can also use to travel.

China's demand for raw materials and energy enables the rich resources of Africa to be fully utilized, benefiting both Chinese purchasers and African suppliers. Also, Chinese demand has stimulated raw material prices, increasing the income of resource-rich African countries and accelerating African development. The investment of over 800 Chinese enterprises has promoted African industries and is breaking the longstanding hold that the West has had over trade in commodities between Africa and the rest of the world. Such investment is also enhancing the autonomy of African countries in production, sales and investment, which offers Africa

more opportunities in terms of market options, investment partners, product prices, etc.

Mutual benefit is also reflected in such areas as fair trade and debt reduction. China continues to further open its market to Africa by lifting tariffs on the number of items (from 190 to over 440, in 2009) exported by countries in Africa that are least developed and have diplomatic relations with China. In addition, when China benefits economically from Africa's emerging markets, it reduces and relieves African countries' debts. At Beijing Summit of the China-Africa Cooperation Forum in 2006, China waived all debt from governmental interest-free loans due at the end of 2005 for 31 heavily-indebted African countries.

If the Chinese growth is sustained, the impacts on the economy and for development of Africa can be substantial. According to President Kufuor of Ghana, "with rich resources, huge market potential, technological know-how and accessible capital, Africa and China can achieve a win-win cooperation; thus giving impetus to the drive towards a sustainable development of the global economy". And while China has become a major player in the global economic structure and there is increasing modernization and globalization, it can be a role model for African communities seeking to establish development frameworks for economic prosperity, growth and overall development. Such cooperation, in addition to opening up markets, can be mutually beneficial. Through the institutions frameworks of China-Africa cooperation, represented a platform for further understanding of the opportunities and challenges, understanding that can turn in help to articulate development frameworks for a coordinated sustainable development of the global economy.

Political Drivers

There are also more politically motivated drivers. Africa is important for China's foreign policy agenda and the building of alliances. China has always regarded Africa as its most reliable ally. The strengthening of Sino-African relations can help China to realize the "one China policy". Furthermore, the cooperation is seen as important for China's objective of a multi-polar world order and to promote China's and Africa's interest therein.

China-African cooperation is also seen as beneficial to the unity and cooperation between developing countries. It is China's goal to raise the international status of the developing world and "establish a new international order" by promoting South-South cooperation. China is, for instance, on the positive side seen as a healthy competitor which could give Africa leverage towards traditional donors and address to the structural imbalances of the international economic system within which many African countries are facing marginalization. Therefore, it has been clear that China's interest and activities in Africa are already resulting in a major development in global politics and giving rise to an evolving new geography of trade and cooperation outside traditional North-South linkages.

Democracy, good governance, promoting human rights and environment

Although China has increased its aid to Africa, it does so without explicit conditionalities. A fundamental principle, enshrined in China's 2006 African Policy, is to provide assistance with "no political strings attached". On the contrary, the West and its financial

and development institutions have inundated Africa with aid. Where such aid has been made available, it has mostly been tied. For instance, about 80 per cent of US grants and contracts to developing countries must be used to buy goods and services from US firms and non-governmental organizations (SOGGE, 2002). About 90 per cent of Italy's aid benefits its own companies and experts and 60-65 per cent of Canada's aid. Much of the aid from Germany, Japan and France is tied to purchases from those states. A United Nations study found such ties cut the value of aid to Africans by up to 25-40 per cent, since Africans are required to buy non-competitively priced imports from supplies in donor countries.

The key question is whether China's political strings attached policy will benefit African people and the environment. It is clear that the notion of sovereignty of the nation state is valued very highly by China. Therefore, whether the no political strings attached policy will be beneficial or not is left in the hands of the governments in place. For instance; to some researchers, China's role in Africa, which has based purely on securing oil supplies and other natural resources, led to claims that China supports authoritarian regimes at the expense of democracy and human rights. Moreover, it is also claimed that much of China's aid money and investments may be going to official pockets in graft and not reaching its targets. One more example is that of good governance and promoting human rights in connection with development aid; the European Union, the International Monetary Fund, and other international institutions link development aid to the promotion of political transparency and good governance in African countries; but Chinese aid comes with no strings attached. The question is what happens in cases where governments either lack the will or capacity to protect and work for the benefit of people and the environment. This is where the non

interference policy will leave poor people and the environment short. There are also concerns, albeit by very small numbers of African environmentalists, about China's generally dismissive approach to good environmental practices. China is the world's largest importer of forest products. Many of its purchases in Africa are from unlicensed loggers or from companies that do not engage in environmentally sound logging practices. There are other relatively small interest groups in most African countries that tend to be wary of China. They include activists, outspoken advocates and those concerned about China's export of arms to the continent. However, some analysts suggest that as China's presence in Africa expands it will be more difficult to stay out of domestic policies. The non interference is more and more difficult to reconcile with China's other objective of being a responsible international stakeholder.

Negative Impacts on domestic economies

Another issue, possibly the most written about is the negative impacts of China's involvement on African labor market. The major issues are the employment of mostly Chinese workers, thus contributing only marginally to the local employment situation, and the flooding of African markets with cheap consumer goods, which poses risks to local producers. Several analyses support this argument and indicate that imports from China have displaced African producers, which has resulted in job losses. China is also to some extent competing with African countries in third-country markets with cheap manufactured goods. This has been the case for example in the textile sector where quota limits on Chinese exports were lifted in 2005. By the end of 2008, China's textile exports to South Africa grew from 40% of clothing exports to more than 80%.

This led to the local industries suffering from competition of cheap Chinese products and led to massive job losses following closures of some industries. Chinese exports to the United States soared and African exporters found they could not compete. More than 10 clothing factories in Lesotho closed in 2005, throwing at least 10.000 employees out of work. South Africa's clothing exports to the United States dropped from \$26 million, in the first quarter of 2004, to \$12 million, for the first quarter of 2005.

Moreover, there has been a sharp increase in recent years in the registry of Chinese companies in Namibia, Botswana and other African countries have also similar experiences. This will surely have implications for the ability of local companies to compete. Criticism has also been directed at China for illegal commercial practices in crude oil extraction and the logging trade. Moreover, China's heavy investments in extractive industries may also give way to the "Dutch disease" in African countries and lead them to develop resource dependent economies that impede sustainable economic development.

RESEARCH PROBLEM

Reactions to China's increased engagement in Africa are "Covering the whole range from excitement to panic, disappointment and uncertainty; and not just from Africans but from the whole international community" (CHIDAUSHE apud MANJI; MARKS, 2007).

There are several dimensions to this need for knowledge. On the one hand, there is a need to learn more about the concrete impacts of China's engagement in African countries: how China's presence affects different sectors and different parts of the population and what

the impact is on poor and vulnerable people and the environment. On the other hand there is also a genuine interest in understanding better how China sees its role in the increased cooperation with Africa – which is not so often heard in western media and debates – in order to be able to engage constructively in development policy processes involving African, Chinese and western governments.

One analysis commissioned by the Norwegian government (with the purpose of looking at implications of China's role in Africa for Norwegian Foreign and Development Policies), states that there is no conclusive evidence, based on the available data, on what China's new Africa engagement implies for African development. It states that, at this stage, we can identify trends and challenges and pose critical questions which can help to identify possible threats and opportunities which in turn will make it easier to develop appropriate responses (TJONNELAND et al., 2006). Another report, consisting of various case studies of the emerging cooperation states that what is clear is “the need to avoid sweeping generalizations about China's impact. The question is less *does* Africa gain or lose from China, but rather, *which* Africans might gain or lose, in which countries or sectors, and in which circumstances?”(WILD; MEPHAM, 2006). Further analysis is needed, not least among those sectors of the population who are most vulnerable and marginalized, to be able to assess policies and attune them for their benefit.

An OECD study on the rise of China and India draws some “early conclusions”, stating that the demand for Africa's natural resources has contributed to raise the price of raw materials and improve Africa's terms of trade. However, the report states this is “no reason to remain complacent and the future of labor-rich and skill-friendly activities in Africa may be compromised, inequalities may deepen and rent seeking activities get more pervasive. A report on

China's engagement in Central Africa portrays these risks and states it is doubtful whether the Central African population will profit much from China's presence. The new global division of labor with China as factory of the world does not automatically mean that peripheral regions like the Central African will benefit, rather that their main utility will be the supply of commodities. Complementarily, it is argued, becomes a synonym for hierarchy.

In sum, as expressed by the South African Finance Minister, "China knows what it wants from Africa, but Africa is not clear on what it wants from China". Third, the question also has implications for traditional donors who need to attune their policies towards Africa and China and find a new role as the Sino-African cooperation grows stronger. For example, donor countries need to develop strategies for supporting African countries in seizing the opportunities, as well as for engaging with China on poverty and development issues.

From academic point of view; nevertheless, the dramatically increase in involvement of China in Africa, existing literature gives a fair amount of information about the magnitude and effects of this partnership. Available databases can be mined to tell us what is traded and by whom. Most recent studies on Africa and China have concentrated on disaggregating trade flows and understanding its determinants. However, very few studies to this date have examined such impact. In other words, the literature is less clear about how the Chinese growing involvement in Africa actually affects the continent. What countries benefit and in what sectors? Who is losing out, and why? One of the central questions is whether China is effectively contributing to sustainable development in Africa or, rather, is China's primary concern to gain access to Africa's raw materials and to open up new markets? One more important question is that whether or not partnership with China has actually helped to induce

the growth of the robust economic growth in Africa, particularly in Sub-Saharan African countries that has accompanied the trade boom.

OVERALL OBJECTIVE

As enthusiasm for the enhanced relationship is exuded on both sides, the aim of the present work is fill the gap in the literature by investigating CEAEC in order to develop better understanding of its dynamics, potential socioeconomic impacts on Africa, and how to make best use of the positive spillover effects that Chinese investments are having on the continent. The findings of the work may help African policy makers to configure a strategic agenda for cooperation with China and promote business relations that enhance the long-term sustainable development of Africa.

MAJOR RESEARCH QUESTIONS

Based on the issues that have risen in the previous sections, in particular, the following questions need to be answered:

1. How the emerging pattern of trade, investments and development cooperation in China-Africa relations looks like?
2. Are China-African trade and investment relations following a path of South-South cooperation?
3. Are they guided by the development needs of both parties? Or are they just replications of the classical North-South model, indeed, is this relationship a replica of what it used to be with the West?
4. What is the likely impact of China's further partnership with Africa? Or what are the impacts of more economic integration

between China and Africa on African countries' GDPs, levels of employment, other macroeconomic aggregates, and development?

5. What will constitute the best trading relationship between China and Africa?

How can African countries develop a strategy that response to that impact and help Africa's to benefit from this emerging relationship?

RESEARCH METHOD

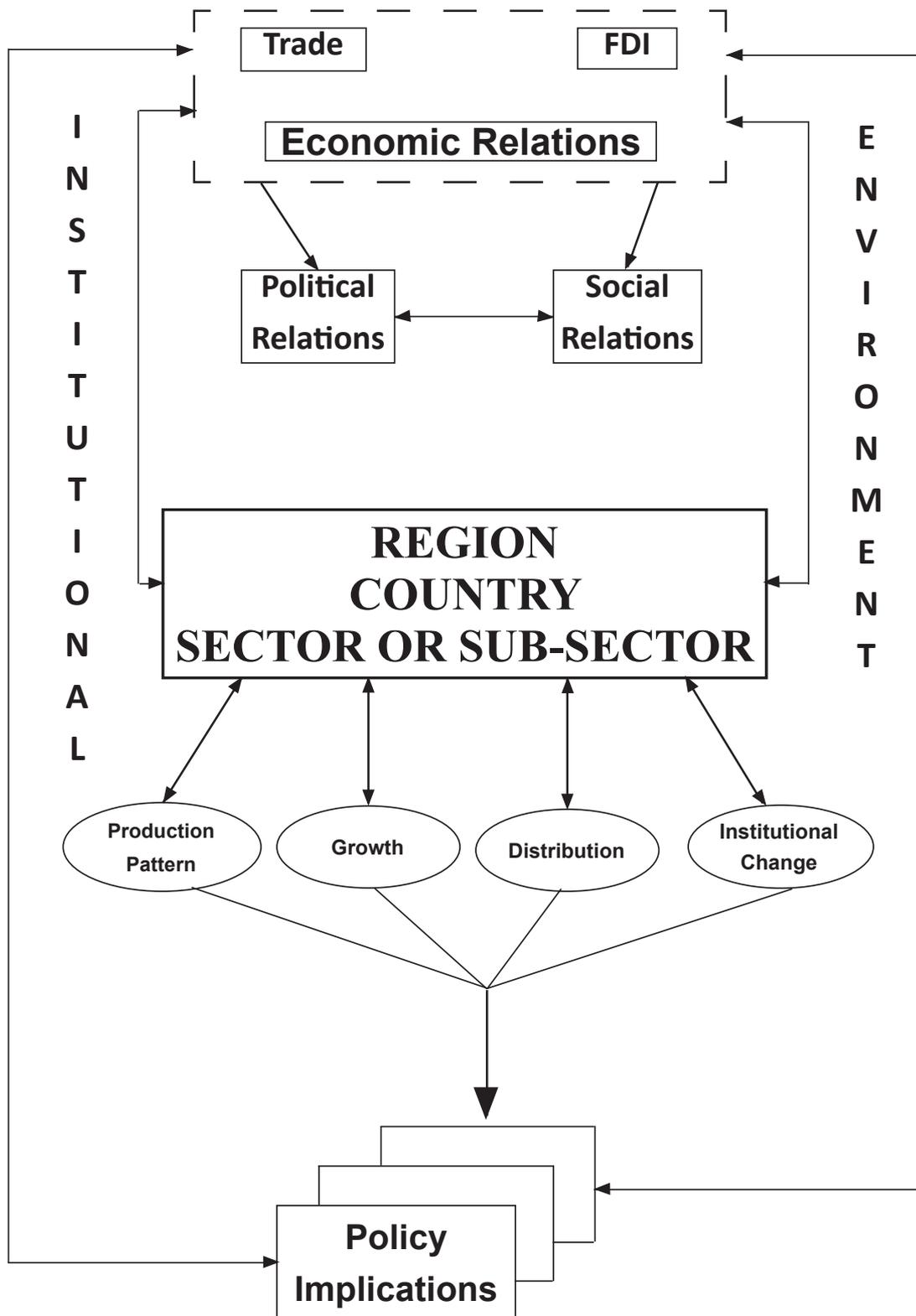
Because the current proposal is primary one and will be refined later, it is quite hard to specifically determine the methods to be used in conducting the study. However, I basically am planning to relay on qualitative and quantitative statistical methods to explore the relationship between China and Africa and its economic and social impacts on African countries. The gravity model approach may be utilized to quantify the bilateral trade between the two sides and the same model can also be used to measure the impact of China on the development in Africa.

While general equilibrium methodology presented itself as the most appropriate analytical framework that would allow the inter- and intra-sectoral changes in output mix and, by extension, the demand for different factors of production to be captured, this study may utilize the Global Trade Analysis Project (GTAP) model and database to analyze policies and investigate the potential implications of the China-Africa partnership. But, this model could only allow the assessment at the continental level due to data limitation with respect to representation of African countries in the GTAP database

as stand-alone regions. The study may also conduct a field study through designing a questionnaire to be applied in certain number of African countries to get more in-depth understanding of the mental image and social attitude towards the cooperation with China. Figure 1 outlines a conceptual framework for analyzing the impact of China – Africa cooperation.

DATA SOURCE

The study will mainly rely on the following data sources: WITS database, World Development Indicators database, UN COMTRADE, COMESA, GTAP database, National Bureau of Statistics of China, World Governance Indicators (WORLD BANK), IMF, and other reports published by related agencies and organizations. Besides, a field study through a designed questionnaire will be utilized.



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ABSTRACT

The dramatic new trend in South-South economic relations is transforming traditional patterns of economic development, and this is nowhere more evident than in China-Africa economic cooperation CAEC. As indicated by several researchers, these new South-South economic relations present real opportunities, as well as challenges to African countries. As regard to CEAC, while the expansion of trade and investment between Africa and China has been generally welcomed, concerns have been expressed about how China's growing presence might affect African development. But what roles exactly has China played? What drives China's trade and financial involvement in Africa? What are the implications of the relationship for other development partners of Africa? This proposal aims to shed light on the ongoing debate on CEAC and develop a framework for the analysis of the socio-economic impacts of CEAC on African countries.

KEYWORDS: China. Africa. CEAC. Financial involvement.

RESUMO

A nova e dramática tendência nas relações econômicas Sul-Sul está transformando os padrões tradicionais de desenvolvimento econômico, e isso é mais evidente do que na China-África de Cooperação Econômica, CAEC. Como indicado por diversos pesquisadores, essas novas relações econômicas Sul-Sul apresentam oportunidades reais, assim como os desafios para os países africanos. No que diz respeito ao CEAC, enquanto a expansão do comércio e do investimento entre a África e a China tem sido geralmente bem-vinda, as preocupações foram expressas sobre como a crescente presença da China pode afetar o desenvolvimento africano. Mas quais papéis a China realmente teve? O que impulsiona o comércio da China e seu envolvimento financeiro na África? Quais são as implicações da relação para outros parceiros de desenvolvimento na África? Esta proposta tem como objetivo lançar luz sobre o debate em curso sobre a CEAC e desenvolver um quadro para a análise dos impactos socioeconômicos da CEAC nos países africanos.

PALAVRAS-CHAVE: China. Países africanos. Relações econômicas. CAEC.