UNIVERSITÀ DEGLI STUDI DI FERRARA

DIPARTIMENTO DI ECONOMIA ISTITUZIONI TERRITORIO

Via Voltapaletto, 11 – 44100 Ferrara

Quaderno n. 28/2007

December 2007

China and Africa economic relations: space for mutual benefits?

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Quadeni deit

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and

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Abstract

In this paper we analyze economic relations between China and Africa. We describe Chinese strategies in Africa and we give some hint on different country strategies. We emphasize that China can be an opportunity for Africa growth if African institution are strong enough to deal with China.

Keywords: China,Africa, FDI, Trade, Institutions, Policy

Jel classification: F10, F41, F59, L16; O10, O19, O55

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Introduction

Bilateral economic and political relationships between China and Africa have grown fast over the past few years – and it is not rhetorical to say that China is a great opportunity for Africa and that Africa is also a great opportunity for China. For Africa, China is an avid buyer of commodities and a provider of cheap products for the continent; it is also a successful development model from which to draw inspiration (and possibly to follow); and it is an "extra opportunity" that may increase the continent's bargaining power with its traditional partners in the West. Africa has what China needs: oil (and raw materials in general), investment opportunities to recycle the ever-burgeoning trade surplus, and a growing market for goods and services. In sum, there is a certain opportunity to develop Win-Win strategies.

Nonetheless, caution is in order. Differences in institutional and economic endowment put Africa in a much weaker position. The rise of China – by which we mean its expertise no less than its money – can be a escapism for Africa – by which we mean mostly its political and business elites – to delay the necessary, painful institutional reforms that are needed to pave the way towards long-run sustainable growth. This is one of the reasons behind the Western countries (EU and US in particular) annoyance in the face of increased Chinese presence in Africa. The other side of the coin is obviously far less altruistic. Europe (or to be more precise European countries) are afraid to lose importance in a part of the world that used to be its *chasse gardée* and that is going to be crucial in the future thanks to the presence of oil, minerals, and raw materials. Judgments always depend on the point of views we consider.

In this paper we try to sketch the current state of Sino-African relations taking in particular consideration the African point of view. In the first section we briefly analyze Sino-African economic relations. In the second one we focus on Chinese strategies in Africa focusing on two aspects: overseas contracted projects (OCPs) and country strategies, in West Africa in particular. OCPs explain very well the deepness of Chinese approach to China while the comparison between countries gives some insight on the different approaches we find. In the conclusions we present some basic policy ideas to help Africa take advantage from the rise of China.

Sino-African economic linkages

China and Africa economic bilateral relations are composed of several channels – including trade, foreign direct investment (FDI), and official development assistance (loans and grants). Each of these variables shows that Africa is an important piece in China's notoriously pragmatic and flexible "Going Global" strategy.

Trade

Raw materials are the core of the Chinese strategy for Africa. Oil, mines, timber etc. is what China needs and what Africa has. Bilateral trade (imports plus exports) has surged from US$11 billion in 2001 to US$52 billion in 2006 and Chinese authorities expect it to pass US$100 billion in 2010. China imports consist prevalently of oil, gas and other minerals (75% of total imports), wood and other agricultural goods. Manufacture is less than 10% of total export and generally these goods are fairly simple transformations of raw materials. At the same time investing in Africa is still riskier than investing in other part of the world. Today the need of raw materials and the great amount of foreign reserves encourage China to invest in activities with a higher risk[1].

Africa is also a very interesting market for many Chinese goods – including many low-quality exports that cannot be sold in Europe or in the US even at a very low price. China exports manufacture goods (45%) and machineries including transport equipment (31%)[2]. This helps many Chinese industries that are characterized by oversupply and is also well accepted by African consumers that can finally purchase hitherto inaccessible goods – from handsets to drugs and toys – at a reasonable price.

An important feature of bilateral trade is that, at least in the past three years, Africa has recorded a trade surplus with China (although there are large differences between countries). Oil producers tend to have a larger surplus while non oil exporters usually have trade deficits. Export to China is very concentrated both in term of goods and country of origin. On average from 2000-2004[3] the first 20 exported goods accounted for 90% of total export (oil alone accounted for 62%). For any of these goods excluding cotton, the first five exporters accounted for more than 95%. Even

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[1] Although relatively difficult to prove, there is a sense that Chinese companies are overbidding Western investors in Africa, especially in the oil industry (see for example "A Bidding Frenzy for Angola's Oil", *Business Week*, 7 June 2006). There are many possible explanations – lower capital costs, stronger needs to secure long-run supplying of oil and minerals, etc. It is also possible that the Chinese may be simply wrong – just like with hindsight most Japanese investors were wrong in the 1980s.

[2] IMF calculations based on UN Comtrade.

[3] See H.G Broadman "Africa Silk Road" for a broader analysis.

more tellingly, four countries account for 70% of African exports to China[4]. Imports are less concentrated, with the first 20 imported goods accounting for 43% of total import. There is some concentration at country level since South Africa is the first importer for 12 of 20 most imported goods and usually more than 65% export of these good are concentrated in 5 or less countries[5].

Import of oil, minerals, and raw materials are increasing but with the exception of oil and few minerals, Africa still accounts for a small percentage of China's imports. Contrary to common perceptions, the largest share of imports derives from market contracts and not from exclusive exploitation rights of oil fields or mines. With the partial exception of Sudan, in most cases Chinese firms have to cooperate with local and foreign firms. The increase in import export relation result to be important but less tight. It is also true that Chinese firms are working strongly to have exclusive right and, also thanks to the increase in trade relations, have been very successful in the latest years.

Notwithstanding this impressive growth, China and Africa trade relations remain 1/6th of the size of EU25/Africa trade. Even if Europe trades more with North Africa than with Sub-Saharan Africa (SSA), also on account of geography, Europe still leads in SSA – although China is much closer. The structures of EU 25 and China imports from Africa are broadly similar: 50% of EU 25 imports are oil and manufactured goods represent only 12% of total imports.

Probably the largest effect that Chinese growth is having on Africa cannot be simply read in bilateral trade data. Although world instability and financial speculation are other explanations, the extra marginal demand of raw materials and oil by China (and India) is the main reason for the recent increase in the price of oil and raw materials. This in turn is affecting the price of agricultural goods, especially insofar as it provides an incentive in South America and elsewhere to use agricultural goods for bio fuels. Even in those African countries with a strong agricultural sector (although many others are food net importers) for which this is good news, the impact *within* the country is ambiguous. Farm income may well increase (although price increases often do not really benefit the small farmers) but this positive outcome may be more than outweighed by many problems for poor people that spend a larger percentage of income in food. Stronger demand for African oil is also crowding out those countries that import oil and that in the past could buy it at a discount. Today these countries have to buy oil at market price.

[4] International Monetary Fund *Direction of Trade Statistics* Washington DC: IMF, 2005

[5] The pragmatism of China can be seen from trade relations with Burkina Faso, one of the few countries that still have diplomatic relations with Taiwan. More than 30% of Burkina Faso exports go to China, making the latter the first trade partner.(Yes, also Burkina shows pragmatism, but it would be difficult for a small country not to cooperate with China).

Bilateral trade relations have to be seen in the broader contest of the Chinese trade strategy. China needs prevalently raw materials. Raw material markets are not completely free markets. Political issues are as important as supply and demand. Given the dependence from other country for raw materials China is trying to consolidate its position using both economic and politics instruments. Politic instruments are much more effective in weaker countries. Chinese Economic "leverages" can be different in term of risk and long run goals than US and EU ones.

The astonishing point is that China has been capable to transform a real weakness, as the lack of natural resources, in a powerful economic and political instrument.

Bilateral and world trade data tell us that the impact that China is having on Africa is diversified. Some countries have great advantages other could have big difficulties.

FDI

The stock of Chinese FDI in Africa in 2005 was $1.6 billion, which represented only 3% of China's total FDI. Most Chinese investment was directed to Asia (53%) and Latin America (37%). Chinese FDI are in every continent following the Going Global policy[6]. China represent less than 2% of African Fdi inflows in 2003-2005 but in term of Stock the percentage is even lower, les than 1%. FDI are mainly concentrated in oil and mineral excavation project and are clustered mainly in the oil and raw material exporting countries[7].

ODA

Loans are another important issue. It is very difficult to have complete information on Chinese loans and Aid to Africa. In the next years, as established in the Beijing China Africa forum, China will provide 3 bn US$ for preferential loans 2bn US% for export credit and 5bn US% to support China Fdi in Africa.

As far as concern Aid[8] China will overcome WB assistance and will compete with EU that remains the bigger donor in Africa. EU aids will rise to 30 bn € in the next 5 years (with an increase of 10bn € on previous programs)[9].

Numbers are all growing but still values don't justify all the concerns we have in western countries about the developing of Sino African relations. Of course there are worries to loose positions in a continent that has been in the European and US sphere of influence in the last centuries but this is

[6] UNCTAD/UNDP (2007)

[7] Holslag ,Geeraerts, Gorus, Smis.(2007)

[8] It is difficult to give numbers because Chinese Govern don't give final sums and because a large part of the support is in non monetary forms. In the lst decades almost 20.000 Chinese medical personnel went to China as 10.000 agro technicians. Thousand of African student had the possibility to study in China. (Friends and Interests: China's Distinctive Links with Africa By Dr. Barry V Sautman,

[9] 10th European Development Fund (included 2,7 bn € for Governance reforms and 5,6 bn € for infrastructure in Africa with European Investment Bank.

not an issue we want to analyze in this paper. We will focus on economic issues. It is a problem of quality more than of quantity. What is really worrying is the quality of these relations and the change of equilibriums.

Chinese Strategies in Africa

Chinese strategies in Africa are pragmatic, tightly planned but flexible.
Strategies are pragmatic because China looks what it needs and try to get it. China is increasing economic relations with almost all African countries. The policy of non interference on internal affair that goes back to a declaration of Zhou Enlai in the fifties is very appreciated in Africa. China has economic relation with all African countries. There is a strong concern that these relations are particularly tight with countries that are considered non democratic. There are a lot of African countries that are absolutely far away from democratic standards. If we consider the "democracy index" (DI) made by "the Economist Intelligent Unit" (that is very criticizable from many points of view) only Botswana, Capo Verde, South Africa, Namibia, Lesotho, Mali are considered Flawed democracies, while other SSA countries are considered authoritarian regimes. EU and Us have strong economic (stronger than China) relations with many of these countries, and we think this is good in general for the economic development of these countries.
It is true that China seems to be more involved with countries that are considered non democratic (as many others) but that are also engaged in particularly awful activities (civil wars, harsh dictatorship, etc). Almost 50% of Sudan export goes to China (export to US and EU are negligible). Angola (a country with one of the highest level of corruption in the world, 151th in the DI) export to Africa is growing fast (but US still first importer) are some example. Chinese Fdi and improved trade relations can slow down the implementation of policies to have institutional improvement in these countries. China is also accused of refinancing countries to which international organizations have just removed the burden of debt. This free riding attitude increases China influence on the continent but challenge debt sustainability in these countires. Even if Chinese data on loans, aids and grants are incomplete, a recent OECD report shows that China is giving a positive contribution to debt sustainability trough GNP growth, exports, and sometime even governance standards. Moreover countries that are more involved with China show a small improvement also in the corruption index (Zimbabwe excluded) [10]

[10] Reisen 2007

It is not that China wants to support authoritarian regimes. China priority is to consolidate its raw materials and oil supply. Europe and US had the opportunity to do it in the past, this is not the case for China[11].

Strategies are tightly planned because all the agents involved, firms, domestic institutions, workers, banks, embassies, are linked together. There is a general strategy that includes all the bilateral relations.

Strategies are flexible because are adapted to every country. Strategies adapt to institutional and economic environment.

We will focus on two aspects: Overseas contracted projects and countries differences. We will briefly compare some countries in West Africa, both oil and non oil exporters. Gabon has a higher income, a longer history of stability (this doesn't mean more democracy or particularly lower corruption) and oil reserves that will probably end in the next 20/30 years. Angola had more difficulties in the past and today is weaker. It ended a civil war in 2003. However oil reserves seem to be very important (second in SSA after Nigeria). The impact of China seems to be fairly different. 25% of Angola's oil exports go to China. Ghana and Benin are not Oil exporting countries but still have an interesting presence of Chinese investments.

Overseas contracted projects

A very important channel is big contracts that end both with extra FDI and new trades. The first destination of large contract is still Asia but the second destination in the latest years seems to be Africa. These large contracts usually involve oil fields, mines, dams, and infrastructures. To understand how carefully China is considering Africa it is worth to describe how Chinese firms manage large contracts in Africa.

Many OCP are related to the mining sector and to infrastructures building. OCP integrate several Chinese agents. The strategy starts in China with the central Govern that decide if Chinese firms have to participate to a specific project. Chinese firms have support at different levels. First, there are financial institutions that help landing money at a discount rate (China Exim Bank, China Development Bank, etc). It is quite common that Chinese firms have the support of the local authorities where the firm is based. Local authorities can help lowering taxes on profit made abroad, with VAT rebate on exported goods and raw materials, but also VAT rebated or ather tax rebate linked with the number of Chinese people that are going to work abroad. This is particularly true for

[11] So far China has found it difficult, for political reasons, to buy international oil and gas firms, with the unsuccessful CNOOC bid for Unocal in 2005 as the best-known example. This makes it necessary for them to scout for energy resources in new territories, in Africa but also in Central Asia and elsewhere.

the non costal provinces in China that still have an excess of labour supply. Many of these workers are moving to the costal provinces, other are going to be hired locally thanks to the support of the Go West policy but there are still unskilled workers that can be sent abroad. The cost of labour for these workers is very low often lower than in Africa.

Thanks to all these financial and non financial supports Chinese firms can make very competitive biddings often winning against European and US companies. Beijing can also ask to bid below costs if the project is considered strategic either for bilateral relations or for domestic policies.

Once the winning firm starts the project other will follow as supplier. In general in these contracts Chinese firms have to hire a certain percentage of local people but it often happens that firms don't find locally (or they pretend not to find) what they need (skilled labour) so the number of Chinese workers is always higher than expected. At the end of the project only a part of the Chinese workers employed in the project go back home. Some prefer to stay in Africa to start their own business either as carpenters, plumber, etc. ready to work both for Chinese and local firms or to enter in the service sector as retailer of wholesaler of Chinese goods. The fact that some Chinese people will remain in Africa is part of the Go Global strategy and explains why local and central authorities heavily support firms in this process. This is a kind of penetration that is much more difficult for other countries. It is much easier for a Chinese worker to adapt to the African living conditions that for an European or a US worker. The Chinese "diaspora" will play an important role in Africa as it did in Asia.

The advantage for China is very clear: OCP stimulate export both in the short and in the long run. In the short run there is an increase demand of raw materials, machineries, etc. In the long run there is a better infrastructure network and a local community of Chinese entrepreneurs. African countries can have new infrastructures at a cheaper price but they loose the opportunity to develop a local construction industry that is often at the base of industrial development.

Country strategies

Gabon is one of the richest countries in West Africa thanks to its oil fields. Oil goes mainly to the US although China oil import is increasing. China is happy to explore new oil fields (even if it is quite clear that Gabon will not have oil for many years) but in competition with other international firms[12]. Thanks to oil export, Gabon has a good trade surplus with China.

[12]Sinopec and Unipec's joint venture with Total. PanOcean exploits the Tsiengui on-shore basin and is associated with Shell to explore Awokou-1

China influence in Gabon is increasing also because for many years European countries (France, first) showed little interest in this country. Today that China is strengthening its relations with Gabon European countries are changing their attitude. Europe seems to be very worried that Chinese firms will only exploit Gabonese natural resources without helping the growth of a domestic industry. Raw materials are simply exported and not processed domestically. This is true but this is also what European countries did for many years. What we see today is a different export pattern in term of destination (more Asia oriented) but we don't see really qualitative differences.

Chinese strategies in Gabon go well above of oil imports. Chinese firms, with the support of Chinese financial institutions, are ready to exploit a manganese and an iron mine that Europeans refused to exploit for many years. We have to understand why this is happening. Is it just because of the higher price of manganese and iron on the world market or is it because Chinese firms don't respect safety standards, labour standards, environmental standards, so that costs for them are unfairly lower? Is it because Chinese firms have a strong financial support from home so that the cost of the investment is lower?

Probably there is a bit of everything. As in all African countries where China is involved, bilateral agreements provide for the building either of a stadium or the house of parliament or the residence of the president. This is a sort of "chip" to foster bilateral relations. This happen completely for free or trough loans at a very low interest rate or with not interests at all (sometime it is implicit that these loans are not going to be repaid). To exploit manganese and iron mines (Bèlinga project), Chinese firms will build a 600 Km railway (with Chinese money and mainly Chinese people) to connect mines to the see port. To run the mines they need also electricity that will be provided by an idroelectric dam they are going to build. As far as concern dams we have to say that is probable that Chinese have some competitive advantage since in the last 10/15 years China is the country that built most dams in the world. To fully understand Chinese strategy is worth noting that Chinese are considering the construction of a second dam close to the province where the constituency of the president is stronger. The Chinese are going to bear all the financial costs of these activities and in exchange they will have a large majority of shares in the company that will run the mines. In practice they will be repaid with raw material exports in the next 20 years. After this period the mine will go back under the full control of the local Govern. Chinese firms have in theory to hire 80% of local people. In practice given the lack of skilled people the percentage of local people is always lower. It is possible that the lack of skills is only an excuse to hire cheaper Chinese workers.

The construction has been possible thanks to Chinese loans (at 3,5% interest rate). Dams will be managed by French firms. This confirms that Chinese firms are still much prone to build than to run dams and that they don't always push other country out of the market. Chinese firms also built several roads in the country[13].

There are also Chinese firms that are constructing a GSM network that will cover almost all the country. Also in this case the construction was offered to some European firms that didn't want to invest in this project. Again it was easier for Chinese firms to find money in their home country[14].

Thanks to a strong financial support Chinese firms are always very competitive in public tenders. This is considered a problem because the Govern need to support local firms and wants to continue to have relations with firms from different countries. There is a sort of trade of: public tenders guarantee lower costs and higher transparency but too often end with a Chinese winner.

Chinese strategy is clear and involves almost every Chinese firms operating in Gabon. This doesn't mean that within the Chinese strategy everything is smooth and clean. It often happens that Chinese companies compete one against the other. This could be good for the Gabon economy if it were a competition in the open market. Usually this is not the case; competition is played at a political level in China. It can happen that investments stop without a clear reason because there is a political clash in China between different ministers that support different firms or different banks and nothing can be clearly seen from the African side.

Of course corruption is an issue. It is difficult to say how Chinese use this instrument to gain positions in Africa. From the African side China is not considered the only country open to corruption activities.

Chinese investments in Gabon have also been criticized both by Ngos and local people. Chinese sinopec has been accused not to respect environment while exploring the Oil field in Petit Loango National Park and had to stop its operations. Also the dam in Kongou (part of the Bèlinga project), located in the Ivindo National Park, has been accused to destroy the forest environment but in this case the government is continuing the project. Probably is not a case that Chinese had to respect some rules in oil extraction where competition is strong while they have less constrains in a project no one else wanted to develop.

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[13] It is interesting to notice that these roads are considered as medium high quality usually better then the road made by French or other European countries but slightly worst than the one made by firms from former Yugoslavia in the seventies.

[14] It has been said that Alcatel will be involved in the project through its Chinese branch.

Since oil reserves are not abundant Gabonese govern wants to diversify its economy. The Govern is trying to organize a Free Trade Zone (FTZ). Manufacturing should be related to the oil industry (extraction, pipeline manufacturing, etc.) activities that in West Africa will remain strong in the future. Gabon has in this specific industry all the skills that are needed. A FTZ that will be linked more with other African countries than to Europe or Us. There are still some problems because not all the Govern is convinced that a FTZ (in the past other FTZs have been planned but never started) could be successful. It is possible that the increase of trade volumes for Africa will also increase the possibility to have a successful FTZ. Gabon is trying to have a financial support from Dubai and is looking for cooperation of Singapore authorities to manage the FTZ. Other projects are under consideration although with a lower probability to be completed (for example a new airport that should be an Hub for all West Africa).

Gabon is a fairly strong country (for SSA standards) and this give them the possibility to do business in China from a not to weak position. However there are not positive signals that Chinese investment and Gdp growth are trickling down to the vast majority of people that remain extremely pour.

Angola is the second country for oil reserves in SSA after Nigeria. Angola became independent from Portugal in 1975[15]. After independence Angola entered in the sphere of influence of Soviet Union. In 1987 Angola left its socialist experience and became a member of IMF and WB. The country really ended its civil war in 2003 but still today the Govern is weak, and corrupted. The absolute lack of transparency is taking foreign assistance out of the country. US is the first destination of Angolan oil but Chinese imports are growing very fast. In 2001 47,7 of total export went to the US, 10,5% to China and 26,3% to EU. In 2006 38,6% went to US, 34,7 to China and only 8,7% to EU. Compared to Gabon, exports to China increased at a faster pace. Sonangol (the local oil company) helped Sinopec in bidding for new oil fields against European firms that were already operating in the country. China has also shown interest in copper and is expected to be given preferential access to Angola's unexploited uranium deposits, the largest of which is located in Paconda, in the enclave of Cabinda, in exchange to technical assistance to develop one or two nuclear power plants.[16] Chinese companies have also made other deals in Angola. Haier, a producer of household appliances, has invested some US$11 million since 2000 to establish a factory which employs 700 people. Hong Kong's China International Fund has funded the construction of a car

[15] The description of the Chinese presence in Angola is based on "The Chinization of Africa – the Case of Angola". Renato Aguilar and Andrea Goldstein.

[16] A new law on atomic energy was passed in June 2007, just two weeks after a four-day visit by the Angolan defense minister to North Korea, during which he praised the excellent bilateral co-operation between the two countries.

assembly plant in Luanda, which aims to produce 5,000 vehicles per year using Japanese technology. In 2006, 26 Chinese companies established a Chamber of Commerce in Luanda.

The main pillar in the financial relationship between China and Angola is a US$2 billion credit from China Exim bank, agreed in March 2004.[17] The conditions include repayment over 17 years, a period of grace of up to five years, and a 1.5 per cent interest rate per annum". Since it is a china Exim credit it has to be related to good and services imported from China. This is a strong link between the two countries that some how increase the cost of credit (given there is not competition with other countries). This loan will mainly go to the development of infrastructure and this could be good for Angola even if 70% of the financing will go to Chinese companies. Given that these companies will not employ many local workers and given that they need to import from China almost every machinery or raw materials (none of that is available in the country) the short run advantage for the Angolan economy is not very large.

Under the ambit of the US$2 billion loan, Chinese companies are engaged in a host of projects throughout Angola, constructing schools, clinics, hospitals and low-cost housing and building basic infrastructure, such as roads and bridges. The most ambitious undertaking is the rehabilitation of the Benguela railroad, linking the port of Lobito on the Atlantic with the Democratic Republic of Congo and Zambia. Other major projects include a new airport and a railroad linking Luanda with Malange, a major town in the interior of the country. In June 2006, four goods and services contracts totalling US$273m between Angola Telecom and three Chinese companies, CMEC, Alcatel Shanghai Bell and Huawei, were signed. In addition, ZTE supplies communication services for the electoral process, investing in military communications and establishing a telecommunications training facility. Another Chinese company is working on the production centre for Angola's television station. A Chinese company, Jiangsu Construction Group, was awarded the US$28m contract to construct a marketplace on a 25-ha site at Panguila, 18 km north of Luanda, to replace the sprawling Roque Santeiro Market above Luanda port. In November 2006, the energy and water minister revealed details of eight Chinese projects, worth a total of US$154m, to improve energy supplies.[18] At April 2006, US$1.8bn of the original US$2bn Chinese credit line had already been spent, although the government has not yet published a breakdown of expenditure.

[17] China also wrote off all the expired debt of Angola which should have been repaid by the end of 1999.

[18] These include the Capanda-N'Dalatando electricity line, which is due for completion during the first quarter of 2007; a new electricity line from the Cambambe dam to Luanda, to be completed by June 2007; a series of electricity distribution and transformation centres around Angola, to be finished by the end of 2006; and a power line from Quifangondo to Caxito, which is due for completion by February 2007. China is also financing a US$70m project to electrify Luanda's suburban areas.

Oil investment and Chinese loans are helping the economy but also are giving the opportunity to the Angolan institution not to follow the policies suggested by IMF for good governance, transparency, and struggle against corruption. This is probably true for the govern in general but not for the Chinese investment that is closely monitored by China Exim that need to see its investment repaid. Several of Angola's leaders are reportedly "disgusted" that Chinese companies are excluding Angolan companies, including those owned by Angola's elite, and building "cardboard structures"[19]. Chinese companies have also failed to submit to independent audits, as required by their contracts, and have failed to use Sécil Marítima, a local transport company, for importing equipment. The cost of projects is also generally higher than expected.

The weakness of the Govern is giving a lot of freedom to Chinese firms. Probably the real problem that the new era of oil exports pushed by high prices is that Angolan Govern is not developing a long term strategy. IMF and other international Institution can not push hard to have reforms that are necessary to have an efficient country that can grow and distribute wealth in the long run. At the same time Chinese exports are "hiding" Chinese import and, even more important, are hiding what Chinese firms could produce in the country.

Benin is one the country that has much to loose from Chinese competition. China is the first trading partner both for export and import. The balance of trade with China is increasingly in the red and its manufacturing sector, mainly based on transformation of cotton, has great difficulties to crack world markets due to Chinese competition. There are several cooperation project in the construction industry (as in every African country), health industry, and in education many students and cadres study in China and these strengths bilateral relations.

Chinese firms are investing in a new GSM network in joint with local firms. There is also a logistic centre established by the Chinese in 1989 but operative only in the latest years. This is a distribution centre that should do business also with neighbouring countries. To develop this project Benin govern is asking for Chinese cooperation in a railway project linking with Burkina Faso and Nigeria. For similar reasons they are planning a pipeline linking Porto Novo to Nigeria. This pipeline will make easier and safer the export of Nigerian oil.

Chinese firms are also ready to invest 250 million US$ in a project for a dam. As in Gabon they are more interested in the construction than in the dam management.

Import from China is partially distributed locally by Chinese people although Chinese presence is less visible than in other African countries. As we mentioned before the negative side is

[19] EIU 2006

the difficulties that the Benin clothing and textile factories are facing competing with Chinese products.

Ghana is a bigger and richer country than Benin. Chinese firms are investing in the development of gold mines. Mines are owned by Australian companies, Chinese firms are in charge of gold extraction, a very lucrative activity. Ghana has strong trade relation with China there is a large Ghana's community in Guangzhou that export goods to Ghana and to other African and non African countries. There is also a parallel trade channel controlled by Chinese traders. The presence of Chinese sellers in the domestic retail market is seen with great concerns and the Ghana's Govern is trying to limit Visa for these activities. China is the third partner for imports and it is a negligible partner for exports. This results in a very negative trade balance.

Strategies in Africa

Africa is growing steadily and this is strongly linked with "Globalization" or at least with some characteristics of Globalization. SSA growth in 2004-2006 has been around 5,5%[20]. Also current accounts surplus are increasing and debt positions are improving. Both oil and non oil producing countries are growing although oil producers are growing faster. North Africa and South African countries are performing better while land looked countries are performing below average. GDP growth, current account, debt positions are positive signals but tell us only a part of the story.

Growth in GDP is still not helping in poverty reduction and also progresses in health sector are modest[21]. There is still a huge problem in distribution of growth.

Openness of SSA economies strongly increased in the last few years. The weigh of import plus export on GDP was 65,2% in 2002 while was 80,9% in 2006[22]. Even if a large part of this increased openness is due to higher export prices it is still a positive sign.

This takes us to the first general consideration. Openness is important but we have to evaluate it in the contest of Globalization. One of the characteristic of Globalization is the unbundling of value chains. Lower transportation costs, lower tariff barriers, new opportunities from ICT are increasing competition between countries. This means that every economy can specialize and be efficient in a small part of the production chain or even in a single task of the

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[20] Imf 2007.
[21] Economic Report on Africa 2007
[22] Based on UN Comtrade data

production chain[23], or in the combination of these tasks. This could be considered good news for African countries that need to concentrate only in the development of few activities possibly related to local endowments. Unfortunately the "real world" is slightly different. It is true that world trade is growing but trade is consolidating at "continental level". 34,1% of total world trade is between European countries, 12% (and increasing) is within Asian countries, 6% is within North America. Italy, Germany and France, just to give some examples, have more than 50% of import and export that remain in Europe. This means that a large part of the value chain unbundling find its way of development within the same continent. This percentage for SSA is lower than 15%. This is in part linked to export pattern (oil etc.) but it is also due to the lack of a real African market. To describe the number and overlapping of Africa trade agreements H. Broadman[24] describe it as a "spaghetti ball". A single large market is important but has to be supported also by common policies. Since China has a single although flexible strategy, Africa should act in the same way. In bilateral relations African countries are always in weak position with the only possible exception of oil exporting countries. We have to remember that for other commodities every single African country represent a small share in China imports. A larger market together with pro competitive policies at country level could help Africa growth. These policies are much easier to be implemented when commodities prices (and tax revenues) are higher. In this sense China is an opportunity. We have underlined differences between African countries. High input prices are helping some countries but rising competition from China and Asia in general is creating difficulties to the few African countries that have a manufacturing sector.

We don't think we have to go back to import substitution industrialization policies but a mix of light incentives on some imports and export duties can encourage Chinese firms to produce in Africa. It is exactly what China did to attract FDI. China had low labour cost and a potentially enormous domestic market, Africa can offer raw materials a smaller domestic market, but an opportunity of production differentiation. Import duties are difficult to implement under WTO rules but if Africa could speak with only one voice its power would be much stronger. We have to remember that Chinese firms are already investing and producing abroad. Chinese firms invest in other Asian countries (with the support of local Chinese communities) to exploit lower labour costs and a better geographic position to serve some specific market. China announced the opening of a FTZ in Egypt to serve European and the Mediterranean countries. Chinese firms invest also in

[23] Rodrik 2004, Kierzkowski 2001, Collier amd Venables 2007
[24] Broadman 2006

manufacturing activities in SSA but with mix results. To attract FDI African countries needs to have a better business environment but this is true in general not only for Chinese investments.

There are policies to be implemented in Africa and policies to be done by EU or other international institutions. To be effective also Europe needs a common strategy on Africa that overcomes single country rent positions.

Africa Union needs technical and financial support to enforce the protocol on Coordination between regional economic communities signed in 2004. It is very difficult for African countries to lower duties and taxes on foreign trade that are important revenues to finance State budgets. EU has money and knows how.

Also trade policies have to help African in building a larger market. In 2005 China gave preferential access to the domestic market to the 27th less developed African countries (0 import duties). Unfortunately this has a little impact on Africa export and Africa GNP given the small dimension and the institutional weakness of these economies that cannot develop only from trade policy a healthy manufacture industry. There are still many Asian countries that have higher import duties for processed goods that for commodities. In 2000 the US introduced the African Growth and Opportunities Act (AGOA) and one year later the EU began the "Everything But Arms" (EBA) scheme. Both schemes improve market access for eligible SSA countries, but neither give help in building an African market. A critical factor is Rule of Origins. ROO allows entitled to preferential trade regimes countries only to import either from other countries under the same agreement or from the country where they are going to re export. In some circumstances this can be a limitation for SSA. ROO should be shaped to increase the interconnection between African countries both to create competences and skills..

US and EU have to find a way to cooperate with China considering that China will be even more involved in Africa in the next years. Some positive signs are already visible. After the pressure of international institutions and of some African countries China Exim signed an agreement of cooperation with the World Bank focusing on large infrastructure development.

China has a competitive and strategic advantage in investing in infrastructure while EU and US have a competitive advantage in helping Africa in institutional building. Both are necessary for long term growth. Investing in infrastructure in a contest of weak institutions give no real advantage to Africa, good institutions without infrastructure (and perhaps low cost technology) are not enough to guarantee growth.

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