

# CHINA–AFRICA RELATIONS: DEFINING NEW TERMS OF ENGAGEMENT

*Vera Songwe and Nelipher Moyo*

## **The Priority**

African countries weathered the global economic crisis fairly well due in large part to a shift away from their traditional trading partners—primarily the United States and the European Union—toward China, India and other emerging markets. In order to sustain economic growth over the next few years, African countries must continue to cultivate and build on these new and promising economic relationships. China, in particular, has emerged as an important and dynamic export destination for Africa. China's share of exports from Africa has increased significantly over the last decade from 3 percent in 1998 to 15 percent in 2008. In 2009, China overtook the United States to become Africa's largest trading partner. Recognizing the growing importance of the China-Africa relationship, the Chinese government outlined its Africa policy in a 2006 white paper. Over the last decade, the China-Africa relationship has been dictated by China's interest in Africa's natural resources. But for African countries to maximize the potential benefits from this partnership, African governments must articulate their own comprehensive China policy, which should include strategies for engagement beyond natural resources.

## **Why Is It Important?**

In the fall of 2012, China will undergo a major transition in leadership. Xi Jinping, China's current vice president, is expected to replace Hu Jintao as general secretary of the Chinese Communist Party and as president of China. With this change comes a new generation of Chinese leaders, the rise of "fifth generation". Seven out of nine members of the Standing Committee—China's most powerful decision-making body—will also be replaced. The previous generations of China's leaders were focused on growing the country's economy. However, now that China has emerged as an economic superpower—the second largest economy in the world—policy changes made by the new generation of leadership will have broader implications for China and the world.

With this change in China's leadership comes an opportunity for African governments to expand the scope of their engagement with China. In 2012, African leaders must articulate well-defined objectives and strategies to guide the next decade of their countries' relationship with China. Failure to do so will be a missed opportunity for both China and Africa.

## What Needs to Happen in 2012?

China's growth trajectory over the next decade could be critical for Africa's development. With an increasingly favorable business environment in Africa, China could help sustain and accelerate the continent's growth. China's economy is projected to grow at a slower rate in 2012 due to a fall in exports to the U.S. and Europe. However, rising domestic consumption in China may bode well for Africa as it could sustain China's demand for African exports. There are some risks however; a sustained slowdown in exports from China to the U.S. and the EU would certainly impact Africa primarily through a drop in China's demand for African exports.

In order to capitalize on the economic opportunities of the growing China-Africa relationship, African countries should take on the following policy recommendations in 2012:

### Increase Market Access and Export Capacity in New Industries

Over the next year, Africa should take advantage of increased trade with China to gain greater access into Asian markets more broadly and diversify the African region's export products. African governments should advocate for no tariffs on their exports to China as well as lower rules of origin requirements. China's current rules of origin require that 40 percent of the value-added be from the exporting African country; unfortunately this is much higher than the manufacturing capacity of many countries in the region.

For their part, African countries must increase the competitiveness of their existing exports and at the same time develop their export capacity in new industries. This will require substantial technology transfer and investment. Here, African countries can learn from China, as the Chinese government has had very successful experiences with implementing policies that support technology transfer from foreign investors to local Chinese firms. In the 1980s, the Chinese government put in place local labor, content and ownership requirements to ensure that there was opportunity for knowledge transfer from foreign to local firms in China. This policy had significant success and allowed Chinese businesses to increase their productive capacity. Similarly, African countries should examine whether such requirements could also enhance the capacity of African businesses. More effective collab-

oration and knowledge sharing between Chinese and African businesses and governments would certainly help take this forward. In addition, increased Chinese investment in Africa's emerging industries could help integrate the continent into global production chains and deepen industrial development.

### Improve Infrastructure

Poor infrastructure across the continent is one of the primary barriers to development and trade in Africa. It is estimated that Africa has an infrastructure financing gap of about \$31 billion annually. China can actually help to bridge this gap. Chinese investment in African infrastructure has increased from \$4.5 billion in 2007 to \$9 billion in 2010; China is by far the fastest growing external source of infrastructure financing for the continent (Schiere and Rugamba, 2011). China is also helping to make it cheaper for African countries to improve their infrastructure by offering lower project costs.

To maximize China's growing investments in African infrastructure, African governments must steer infrastructure investment toward maintenance as well as new infrastructure development. It is estimated African countries have lost more than half of their road networks since independence due to poor maintenance. In 2012, African leaders should look for ways to engage China for better maintenance of the region's infrastructure. Furthermore, African governments must ensure that infrastructure development projects are not only concentrated around extractive industries, but that they also facilitate the development of new industries.

### Create Jobs and Reduce Youth Unemployment

Strong demand from China and increased access to its markets could help Africa deal with its growing youth unemployment problem if a more robust manufacturing sector develops on the continent. On average, youth unemployment in Sub-Saharan Africa is over 20 percent and is expected to increase over the next decade. Africa should follow the example of East Asia, where a rapid demographic transition between 1965 and 1990 occurred at a time when strong educational systems and trade liberalization enabled countries in the region to absorb the boom generation into the workforce. Similarly, African govern-

ments should look for innovative ways to absorb unemployed youth into the labor market.

The Arab Spring showed governments around the world that problems of youth unemployment cannot be ignored. African governments must therefore prioritize job creation and leverage their relationship with China to help tackle the unemployment problem. China's demand for African exports coupled with its investments in infrastructure in Africa could help to create jobs for youth in the region. While African countries must invest in education and health, investing in infrastructure and creating a conducive business environment are a top priority. To spur job creation, African governments should offer various incentives including tax breaks to foreign firms that create local jobs for Africans. Conversely, African governments should discourage the use of external workers by foreign firms for basic tasks that can be performed by local workers. This will help to ensure that Africa does not miss out on the job creating potential of China's increasing investment.

#### Strengthen Governance

In light of the growing importance of the relationship with China, it is essential that the African leadership and governance structures that manage these relationships are robust. The nature and strengths of these institutions will ensure that the China-Africa relationship is a sustainable and equitable one.

African governments must conduct their business with China in an open and transparent manner, beginning with full public disclosure of all major contracts in the extractive industries. Many African countries have signed on to the Extractives Industries Transparency Initiative. Yet, numerous deals continue to be concluded without any public scrutiny.

It is also in China's interest to deal with strong and transparent institutions in Africa to protect its investments. China can work with African countries to strengthen their legal and regulatory frameworks to ensure that the overall business environment in these countries is conducive to investments and that the institutions needed to support trade facilitation are transparent, accountable and robust.

#### Rethink International Partnerships

African countries should encourage China to leverage its role as a leading development partner in Africa in order

to reshape the international aid architecture from an aid agenda to an investment agenda. Given China's recent transition from aid recipient to donor country and its understanding of the importance of investment, African countries should persuade China's new leadership to become a more active participant in the global development and international aid dialogue.

#### Conclusion

China will remain an important trading partner for Africa over the next decade. Therefore, Africa should look for ways to leverage its relationship with China in order to increase productivity in the natural resources and mining sectors, and to diversify into other sectors. In the years to come, Africa could benefit from more meaningful exchanges with China in a number of areas, including infrastructure development, technology transfer, job creation, institution building and even international aid reform. However, a clear policy framework for engagement with China is needed. The leadership changes in China later this year present an opportunity for African governments to expand the scope of their engagement. This must be a priority for African countries in 2012.

#### References

- Kimenyi, Mwangi S., and Zenia Lewis. 2011. "The BRICs and The New Scramble for Africa." *Foresight Africa: The Continent's Greatest Challenges and Opportunities for 2011*. 11 January 2011. Africa Growth Initiative, Brookings: Washington, DC.
- Schiere, Richard and Alex Rugamba. 2011. "Chinese Infrastructure Investments and African Integration." May 2011. African Development Bank: Tunis, Tunisia.