

China's Engagement with African Countries

key findings and recommendations

Introduction

China's growing presence in Africa represents an historic economic and social transition for the continent. This new phase of China's relationship with Africa raises important questions for African policymakers and the continent's development partners.

Will Chinese lending to African countries create debt that becomes unsustainable, or will China help reduce Africa's indebtedness by stimulating exports and growth? How will the global recession affect this relationship? What lessons can be learned from China's track record of extraordinary economic growth and increases in agricultural productivity? How can the development community aid resource-poor countries, small businesspeople, and low-income people in their engagements with China?

The Rockefeller Foundation is supporting the process of answering these questions to help African policymakers to forge mutually-beneficial relationships with the continent's burgeoning Asian business partner.

Some of this work has focused on aiding preparations for the fourth Forum on China-Africa Cooperation (FOCAC) meeting, which will be held in Egypt in November 2009. The Rockefeller Foundation awarded four major grants to:

- the African Economic Research Consortium to help create workshops on harmonizing and disseminating country-level policy research within Africa;
- the African Agricultural Technology Foundation to help in identifying Chinese agricultural technologies relevant to African smallholder farmers;
- the Centre for Chinese Studies at the University of Stellenbosch to examine the implementation of the commitments of FOCAC III in 2006; and
- the African Center for Economic Transformation to provide African governments with policy research, analysis and advisory services.

Academics and researchers across the continent and in China have contributed to this timely, African-led research project. Field visits and extensive surveys have been undertaken, engaging a broad spectrum of public and private sector actors.

Short overviews of each grantee's work are provided in this summary report, but these do not capture the full scope and depth of the research. Further information and downloadable reports are available on the grantees' websites, details of which can be found on page 12. The Rockefeller Foundation would like to encourage all those interested in China's engagement with African countries to consult these important resources.

Some of the key findings and recommendations to emerge from this body of research, which was discussed and reviewed by the grantees collectively in August 2009, are listed on page 3.

The Rockefeller Foundation hopes that this research can guide policymakers and all those interested in Africa's relationship with China as they seek to understand and harness the possibilities that exist, and overcome the challenges that remain.

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The Rockefeller Foundation

Key findings and recommendations

- **The strong correlation in recent years between Chinese and African growth is evidence of the new coupling of developing countries and the decoupling of African economies with traditional partners.** The current global economic crisis could see Sino-African relations deepen as a result of restricted economic activity in Western economies.
- The experiences of other regions of the world, notably the Greater Mekong Sub region, suggest that **Africa's engagement with China could result in significant changes in economic and social conditions**, including: growth in income; increased access to consumer goods; increased access to technology; and improved healthcare and education.
- **African nations need development strategies to ensure that engagement with China is mutually beneficial.** The success of initiatives arising from FOCAC will depend in part on the ability to streamline these activities through country focal points (principally the relevant ministries) and regional bodies.
- Analysis of China's engagement with and impact on Africa is limited in terms of both quantity and quality. **Greater engagement between African researchers and policymakers should be encouraged and supported.**
- **African governments may wish to consider engaging more closely the private sector and civil society** to monitor Chinese engagements, to inform policymaking and to ensure that the economic impacts of investments and trade are more broadly distributed.
- FOCAC commitments to date have not benefited from a focal point to oversee their implementation and monitoring. **African countries may wish to explore the introduction of a formal review mechanism** that could be overseen by, for example, the African Union.



Background

The African Agricultural Technology Foundation (AATF) has undertaken a wide-ranging study on the relevance of Chinese agricultural technologies to addressing productivity constraints faced by smallholder farmers in sub-Saharan Africa (SSA). The study also reviews the current levels of Chinese involvement in SSA agriculture and documents progress on commitments made at FOCAC III in 2006.

Agriculture in SSA is characterized by a low technological base and little, if any, improvement in yield per unit over the last 40 years. Achieving growth in African agriculture is crucial not only for achieving food security and reducing hunger, but also for generating income through employment and trade. Chinese agriculture, which is also characterized by millions of smallholder producers, has recorded huge improvements in productivity in the past 30 years, thanks to the systematic process of institutional and policy changes in the sector, rural infrastructure development and the adoption of relevant agricultural technologies that have transformed the agriculture platform.

AATF's report shows that SSA countries are not fully harnessing the potential benefits that could be derived from a basket of Chinese agricultural technologies that are relevant for smallholder farmers. The report identifies a number of technologies available in China that can be used by resource-poor smallholder farmers in Africa, and the fundamental institutional and policy changes that are needed to reinvigorate the agriculture sector across the continent.

Methodology and scope

The focus countries for AATF's study were Burkina Faso, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Nigeria, Tanzania and Zambia. AATF worked with a team of in-country consultants to conduct interviews, field visits and workshops in these countries. This research was complemented by desktop research and a detailed review of existing documentation and materials on agriculture in SSA.

Further sources of information in Africa included government departments and agencies, continental and regional bodies, including the East African Community (EAC), the Economic Community of West African States (ECOWAS), the New Partnership for Africa's Development (NEPAD), the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA), the Southern African Development Community (SADC) and the West and Central African Council for Agricultural Research and Development (CORAF), agricultural universities and farmers' organizations, non-governmental organizations, and community organizations involved in agricultural development.

In China, several institutions were engaged, including the Ministry of Agriculture, the Chinese Academy for Agricultural Sciences, the National Agricultural Research Systems, academic institutions (including China Agricultural University and Henan Agricultural University), farmers' cooperatives, and private sector companies.

Key findings and recommendations

- African governments should step up their analysis of the potential uptake of Chinese agricultural technologies and enabling policy environments to enhance the performance of their domestic agricultural sectors. In fact, African countries already possess a number of the technologies akin to those that China has successfully adopted to boost agricultural productivity, but these technologies have not been properly supported and put to effective use.
- African countries can learn important lessons from the Chinese extension model of decentralizing and implementing research recommendations. China has a decentralized, multi-tier research and extension system through which national, provincial, and district research institutes develop and disseminate technologies to address the unique characteristics of the region.
- African governments need to better identify their individual and collective agricultural needs before engaging with China to ensure that projects are mutually beneficial. While there has been progress in the implementation of the 2006 FOCAC agricultural commitments, including the establishment of a number of agricultural demonstration centers, there is scope for greater coordination. Few mechanisms or institutions exist that actively seek to take advantage of the Chinese flow of technologies to advance development in African agriculture.
- African countries should develop a coherent and systematic plan to access and transfer Chinese agricultural technologies through the China-Africa Development Fund (CADFund). Increased awareness of this fund and the ways in which it can be accessed could help both farmers and agribusinesses in Africa, and investors in China.
- Appropriate policy and legal frameworks are necessary to promote agriculture at all levels of the value chain. China has policies and laws regulating land use, fertilizer, seed production, agribusiness, agricultural credit, pest management and germplasm conservation. Although such policies and laws exist in a number of African countries, they are often insufficiently implemented.

- The increase in agricultural productivity in China would not have occurred without a coordinated program of policy reform, the development of rural infrastructure, economic development and, vitally, the development of agricultural technologies driven by both public and private institutions. African governments need to develop similarly holistic plans to advance agricultural development, which is the backbone of most African economies.

The major constraints to increased agricultural production identified by AATF's study are:

- Inadequate access to hybrid and improved varieties of seeds, and inappropriate fertilizer use
- High concentrations of pests and diseases
- Climatic variability
- Poor water and soil management
- Insufficient mechanization
- Inadequate energy supplies
- Poor government policy on agriculture

Chinese technologies and practices that could be used to address and overcome these constraints include:

- Crop varieties and hybrids that have multiple-disease, pest and drought tolerant strains
- Slow/controlled-release fertilizers
- Integrated aquaculture farming practices that focus on joint production of fish, livestock and crops
- Dryland and water management practices to support irrigation
- Advanced land management practices
- Strategies for reducing post-harvest losses
- Improved animal varieties that are resistant to diseases and pests and that can withstand climatic vagaries



African Center For Economic Transformation

Background

The African Center for Economic Transformation has produced a hands-on reference manual for African policymakers. This comes in the form of a two-part study that describes the economic trends, major actors, positive impacts and key challenges of Sino-African commercial engagements.

The report is intended for African policymakers and other stakeholders who are attempting to understand the scope of China's economic engagements in African countries and to learn what African governments can do to leverage these engagements in support of a transformation agenda.

The report explores three key dimensions of engagement - trade, investment, and economic and technical cooperation - and seven sectors - oil and gas, mining, infrastructure, agriculture, manufacturing, forestry and services.

Methodology and scope

ACET's analysis across the three dimensions and seven sectors is based primarily on secondary sources, ranging from country-specific, sector-specific and dimension-specific studies to cross-country reports. Particular attention is devoted to literature that focuses on case studies, which tend to highlight country-specific, dimension-specific and sector-specific issues. Credible media reports - important in the context of the dynamic nature of Sino-African engagements - were also reviewed.

In addition to secondary sources, primary data was obtained through country case studies based on interviews with relevant stakeholders in Ghana, Liberia and Rwanda. Observations from the secondary sources and primary data from country case studies were reinforced by interviews with representatives of the Chinese government, African governments, state-owned and private firms, think-tanks and academic institutions, and international organizations.

Key findings and recommendations

ACET's report recommends that African policymakers use the opportunity presented by deepening economic ties with China and other economic partners to support an agenda of economic transformation. Although Africa's countries are economically, politically and socially diverse, this agenda for economic transformation cuts across most differences. The agenda includes job creation and skills development, export diversification and greater trade competitiveness, sustainable investment in infrastructure, and modernization of agriculture.

Over the last decade, China's engagements in African countries have shifted toward trade, foreign direct investment (FDI) and economic and technical cooperation in seven major sectors in key countries. While Chinese state actors predominate in oil and gas, mining, and infrastructure, private firms, traders and farmers are increasingly having an impact in the manufacturing, retail and agriculture sectors. African policymakers are clearly enthusiastic about the economic opportunities arising from engaging with China and must actively engage Chinese partners to ensure that relationships support Africa's economic transformation.

Positive effects of Chinese engagement:

- Chinese engagements with African nations are boosting exports and economic growth, especially in net oil-exporting countries, while providing promising economic opportunities for countries neglected by other investors and financiers.
- Chinese investments are also helping African economies to diversify and increasing the local processing of exports.
- China's cooperation in agriculture is contributing to increased production and productivity.
- With Chinese finance, African countries are addressing infrastructure deficits, lowering the costs of doing business and facilitating trade. Cheaper goods and services from Chinese firms have yielded welfare gains for African consumers.
- Chinese FDI has created a springboard for generating jobs in manufacturing, mining and construction.
- New training and research facilities should contribute to skills and technology transfers.

Negative effects of Chinese engagement

- Except for leading oil and minerals producers, African countries face considerable trade imbalances with China. African exports to China are dominated by low-value raw materials, such as unrefined oil, minerals and logs, while processed goods, especially in agriculture, face tariff and non-tariff barriers.
- Some aspect of China's investment and finance raise concerns about debt sustainability, risk-sharing and cost recovery.
- A lack of transparency in negotiating and implementing deals has impeded the constructive involvement of African businesses and civil society groups, and there are constraints to the number and quality of jobs created as a result of Chinese investment.
- Competitive pressures from Chinese firms, the tying of loans and the access that Chinese firms have to official Chinese credit facilities from the Chinese government have crowded out African firms in key sectors.
- African stakeholders often accuse Chinese firms engaged with African countries of violating international and local environmental, quality control and labor standards.

ACET believes that China will become the most important economic partner for several African countries and that China offers long-term opportunities to advance a transformation agenda. Key recommendations include:

- Develop integrated national strategies for engaging Chinese actors, anchored in long-term development plans and rooted in a transformation agenda.
- Promote links with Chinese firms, and develop and implement safeguards where negative competitive impacts outweigh benefits, to ensure that engagements strengthen the competitiveness of African firms.
- Promote local content in trade and investment agreements, investments in labor-intensive industries and on-the-job skills training to increase the benefits to African workers.
- Lead partnerships with the Chinese government and other actors to improve the adherence of Chinese firms to national environmental, labor and product-quality standards, and alignment with international best practices.
- Involve the private sector and civil society to effectively monitor engagements, to develop strategy and to ensure that the economic impacts of investments and trade are more broadly spread.

A strong developmental state is essential to driving this agenda. The Chinese government was pivotal to driving reforms for its remarkable transformation from an agrarian to an industrial economy. If China is to become an important development partner, African policymakers must drive the agenda of creating jobs and developing skills, diversifying exports and increasing trade competitiveness, making sustainable investments in infrastructure and modernizing agriculture.



Background

The African Economic Research Consortium (AERC) has undertaken extensive research looking at Sino-African engagement, with particular focus on trade, aid relations and investment. The results of this research are a number of in-depth, country-specific scoping studies examining the particulars of 21 SSA countries' associations with China. These reports were then synthesized and condensed into three broader papers that outline the benefits and challenges presented by Sino-African engagement. Research was conducted by in-country researchers across the continent.

Scope

The first of the three broader papers covers the insights gained from the country-specific scoping studies into Sino-African trade relations. It is divided into four sections: an introduction, giving an overview and brief economic history of China and Africa; a description of the size and structure of Africa's trade with China; a discussion of the impact of this trade; and recommendations on how to seize the opportunities and confront the challenges presented by the relationship. The second paper, which covers Sino-Africa aid relations, is structured in a similar way, also drawing on insights from the country-specific scoping studies. The third paper focuses on Sino-African investment relations.

Key findings and recommendations

Trade

- Much of Africa's growth accelerations and decelerations are closely tied to the trade channel. The report identifies that the strength of the commodity boom, to which China's economic growth has contributed significantly, has been a major factor in the high GDP growth in Africa in recent years.
- China's imports from Africa are heavily concentrated in the relatively few countries that export petroleum, minerals, metals and other raw materials. By comparison, China's exports of manufactured products reach virtually all African countries.
- Resource-rich countries generally export mineral and primary agricultural commodities to China and mostly enjoy a trade surplus with China. Resource-poor countries should seek to develop manufacturing capacity in low-wage, labor-intensive industry, and thus position themselves to cut into China's current export market shares.
- The division of labor implied by the current structure of Sino-African trade is not conducive to the longer-term objectives of diversifying Africa's export structure and using trade to enhance the industrial development of African countries. China has shown willingness to respond favorably to African pressure for enhanced market access.
- African countries should articulate and implement policies aimed at relaxing their export supply response capacity constraints, diversifying their production base, and expanding their access to external markets.

Aid

- By not relying exclusively on Western donors, SSA countries are able to negotiate, at least to some extent, for more favorable conditions for aid. SSA countries should consistently assess their relationships with China to minimize the risk and exploit the advantages that come with closer ties.
- Chinese aid is often tied to Chinese products and labor, undermining its impact on African economies, especially in terms of local employment creation.
- Chinese aid comes with limited policy conditionality, which has the potential to undermine political governance.
- Qualitative, social and environmental aspects should be integrated into aid agreements in order to protect the most vulnerable members of society. There is also a strong role for civil society advocacy in this area.

Investment

- Although Chinese Foreign Direct Investment (FDI) to SSA has been increasing, it remains small. It was only in 2000 that Chinese FDI passed the level of 5% of total FDI inflows in Africa.
- The increase in Chinese FDI to Africa has provided the continent with alternative financial resources to finance its development strategy.
- Chinese FDI flows to Africa are not equally distributed across the continent. In 2005, Sudan, Algeria, Zambia, Nigeria and South Africa accounted for 56% of the FDI stock in Africa.
- Chinese investments tend to be bundled more tightly than those emanating from Western countries and to have longer time-horizons. Chinese investors are also more willing to operate in insecure environments.
- Chinese firms tend not to use their SSA subsidiaries as part of their global value-chain operations, serving markets in other countries. Many Chinese firms use SSA as an easy learning environment, honing their skills before venturing into more taxing conditions.



Background

The Centre for Chinese Studies has compiled an extensive report looking at China's engagement with five African countries - Angola, Democratic Republic of Congo (DRC), Mozambique, Tanzania and Uganda - through the Forum on China-Africa Cooperation (FOCAC). The report also outlines China's interaction with two African regional organizations, the East African Community (EAC) and the Southern African Development Community (SADC).

The report has four main aims:

- 1 to investigate emerging trends in China's engagement with the African continent through the FOCAC process;
- 2 to evaluate the immediate political, economic and social impacts of the implementation of the FOCAC commitment in the prioritized regions and countries;
- 3 to gain an understanding of the opportunities and challenges for African policymakers and leaders following the roll-out of China's FOCAC commitments;
- 4 to provide stakeholders with accurate information and commentary regarding implementation of the 2006 FOCAC commitments.

Methodology and scope

CCS deployed a merger of two research approaches, combining an analysis of official documents with empirical in-country investigations regarding the implementation of the Beijing Action Plan in African countries. In each of the five countries studied, a wide range of stakeholders were consulted, including African and Chinese government and private sector representatives. Representatives from African and international civil society organizations were also consulted. Site visits were made to completed FOCAC projects and the building sites of FOCAC projects still under construction. The findings from these visits are outlined in each country case study in the report.

Key findings and recommendations

The report suggests that, overall, implementation of the Beijing Action Plan in the five countries is fairly advanced. In Angola, the focus has been placed on communications infrastructure. In DRC, road infrastructure and ICT are the areas that have received the most attention. In the case of Mozambique, the construction of public facilities has been the salient feature. Communications infrastructure and public facilities have been the most important characteristic in Tanzania. In Uganda, the focus has been on the construction of public facilities and an ICT backbone. The report notes that wider engagement with China by EAC and SADC is recommended for the development of the two regions, although there has been little formal engagement to date.

Key findings and recommendations include:

- The establishment of a FOCAC-SADC sub-committee that would involve academics and policymakers from the member states in regular roundtable consultations to discuss the role of FOCAC within SADC, and to formulate a SADC position on China.
- The establishment of formal relations between the EAC and China, possibly through the deployment of a Chinese diplomatic representative to the EAC secretariat, which would be helpful in advancing EAC-China relations.
- Increased Chinese medical assistance. The comprehensive transfer to Africa of China's impressive capacity in combating malaria could be decisive in containing the disease on the continent.
- Coordination of development aid. Synthesizing Chinese official assistance programs with the activities of other donors would eliminate duplication and help to advance more productive and comprehensive development programs in Africa. (FOCAC has not so far investigated the potential for aid coordination.)
- Greater use of local labor and skills transfers. Given the high levels of unemployment across Africa, a conscious commitment by China to promote domestic job creation coupled with comprehensive skills transfer programs is an urgent African development requirement. At the same time, African governments should give consideration to providing the necessary basic technical training to complement Chinese-initiated projects.
- Increased technology transfers to Africa. China's rapid economic development over the last few years offers Africa numerous opportunities for technology sharing, creative joint ventures and commercial engagement in a wide range of fields, including agricultural production, agro-processing, ICT and manufacturing.
- The Chinese FOCAC commitment to accelerate infrastructure programs in Africa should be complemented with a local material sourcing strategy.
- Expanded direct air links between China and Africa would significantly enhance business-to-business contacts, providing opportunities for expanded trade and investment. This could enhance African prospects for increased development through trade.
- Improved media exchanges would enhance information sharing and promote mutually beneficial solutions to both political and economic engagement issues.
- Chinese agricultural and agro-processing assistance would make a major contribution to addressing food security concerns in Africa, especially in the areas of logistics management and distribution systems.
- FOCAC should focus on assisting African countries to access the Chinese market. Africa requires further direct assistance to take advantage of China's tariff reductions and trade concessions.
- China's expanding experience in environmental protection could provide significant guidance and assistance to Africa in developing both regional and continental programs.
- The Sino-AU strategic dialogue provides an opportunity for Africa to step-up constructive dialogue with China and should be broadly supported. The AU should be empowered to articulate Africa's overall development agenda with a view to mobilizing Chinese support for specific development projects and initiatives.

About the grantees

African Agricultural Technology Foundation (AATF) - Based in Nairobi, Kenya, AATF is a not-for-profit organization designed to facilitate and promote public-private partnerships for the access and delivery of appropriate proprietary agricultural technologies for use by resource-poor smallholder farmers in sub-Saharan Africa. The Foundation is a one-stop-shop that provides expertise and know-how that facilitates the identification, access, development, delivery and utilization of proprietary agricultural technologies. www.aatf-africa.org

African Center for Economic Transformation (ACET) - Based in Accra, Ghana, ACET works to promote high-quality policy analysis and advisory services, assisting African governments in achieving long-term growth and the transformation of African economies. ACET's approach to fulfilling this mission involves: engaging a new, integrated method that combines policy research, advisory services and institution strengthening; championing a unique African perspective and greater ownership of the development agenda; creating an unrivalled network of world class international experts and preeminent African professionals; and harnessing African talent from within the continent and from its diaspora. www.acetforafrica.org

African Economic Research Consortium (AERC) - Based in Nairobi, Kenya, AERC is a public not-for-profit organization devoted to the advancement of economic policy research and training. AERC's mission is to strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa. www.aercafrica.org

Centre for Chinese Studies (CCS) - Based at Stellenbosch University in South Africa, CCS is the first institution devoted to the study of China in sub-Saharan Africa. The Centre promotes the exchange of knowledge, ideas and experiences between China and Africa. As Africa's interaction with China increases, the need for greater analysis and understanding between the two regions and peoples grows. This involves evaluating China's developmental role in Africa in various capacities, ranging from trade and investment to humanitarian assistance. The Centre seeks to fulfill this role. www.ccs.org.za

About the Rockefeller Foundation

The Rockefeller Foundation fosters innovative solutions to many of the world's most pressing challenges, affirming its mission, since 1913, to "promote the well-being" of humanity. Today, the Rockefeller Foundation works to ensure that more people can tap into the benefits of globalization while developing stronger resilience to its risks. Foundation initiatives in African countries include integrated efforts to mobilize an agricultural revolution; create new markets for impact investing; assure access to affordable and high-quality health systems; shape advances in urban planning, finance, infrastructure, and governance; and help vulnerable communities cope with the imminent and worsening effects of climate change.

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