The Economics of and Prospects for China’s Africa Return

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1. Introduction

China’s deepening economic ties with Africa carry ‘profound implications for the continent and beyond’ (Wang and Elliot, 2014: 1017). Trends and events in and between each of China and Africa are accordingly now also at the core of the economic development of both. This chapter provides an overview of the related economic and political economy trends and transitions.

Economic ties between China and Africa began to grow rapidly in the mid-1990s. “Chiefly for profit and resources” China prioritised investment and trade ties with African countries (ibid: 1013). Over a decade later, in 2009, China became Africa’s largest trade partner, and has remained so since. Presently Africa’s China trade comprises some quarter of total trade (Pigato and Tang, 2015). China’s investments in Africa are increasingly visible in the region, most visibly in the construction sector. For China on the other hand, FDI flows to sub-Saharan Africa (SSA) have comprised some 10 per cent of total Chinese FDI (ibid), and are presently about equivalent to China’s total FDI in Australia. Unlike for aggregate trade with Africa, these investment levels are important within the scale of China’s outbound investment portfolio. They are specifically important for accessing to particular commodities also, including oil and copper for example.

Until recently, these trade ties were broadly characterised by a contentious and historical pattern of trade. Large volumes of fuels and minerals flowed from Africa to China while African economies bought value-added manufactured goods from China. As a result, Africa’s major commodities exporters not only benefited disproportionately from China-Africa trade. They also received the lion’s share of China’s investment in Africa (see Chen, Dollar and Tang, 2015; Johnston, 2015a: 391). China having in recent decades opened up under-exploited oil-rich countries with a reputation for poor governance, including former Sudan and Angola means that where China’s interest in resources is consistent with Western interest, its share of foreign investment in weakly governed African states is higher (Dollar, 2015). The propensity for corruption in the management of natural resources together with China’s lack of attention to matters of resource transparency and local mechanisms of oversight have been a cause for concern (Zafar, 2007).

As the world’s second largest economy, home to the world’s largest savings pool, an important global trader and mass exporter of manufactured goods, China’s influence on Africa is also indirect: through effects on global prices (especially of commodity prices (see Wing, 2016)), interest rates, and the terms of trade (Zafar, 2007: 7). China has moreover
helped to maintain low interest rates and bond yields through its financing of the U.S. deficit, and selective empirical evidence finds that high commodity prices are influenced by low real interest rates (Frankel 2006, cited in Zafar, 2007:7).

Such impacts have differing spill-over effects on other economies, for example via the terms of trade. China’s decades-long low-cost industrial export success offered downward pressure to some industrial prices, including light manufactures like textiles and clothing, and high technology products (IMF 2003, cited in Zafar: 2007: 7). This has contributed to recent terms of trade indices differences between resource-rich and resource-poor economies in Africa (Zafar, 2007). Contemporary structural change in the Chinese economy, however, elaborated in Section 3, has substantively shifted the distribution of China-related benefits in Africa in greater favour of commodities importers. An outcome is described in popular media as follows: “But as China’s economy slows and its once seemingly insatiable hunger for Africa’s commodities wanes, many African economies are tumbling, quickly” (Onishi, New York Times, January 2016, accessed 28.01.16).

In a prescient and pragmatic response to the broader challenges induced by fuel and minerals-hungry China, in March 2013 former Nigerian Central Bank Governor, Sanusi Lamido, suggested that Africa should avoid romanticism, and instead must “recognize that China – like the US, Russia, Britain, Brazil and the rest – is in Africa not for African interests but its own. The romance must be replaced by hard-nosed economic thinking. Engagement must be on terms that allow the Chinese to make money while developing the continent, such as incentives to set up manufacturing on African soil and policies to ensure employment of Africans” (Financial Times, 2013, accessed 10.04.14).

Visiting Africa a year later, in May 2014, Chinese Premier Li Keqiang laid down four principles for the contemporary deepening of China-Africa cooperation: ‘sincerity and equality; solidarity and mutual trust; jointly pursuing inclusive development; and innovative pragmatic cooperation’ (Johnston, 2014). The latter reflected a new addition to a set of otherwise traditional principles for China’s relations with other developing countries. This may infer the direction of ties was pivot differently therein. The concurrent arrival of the new growth model indeed provides this scope. Symbolically, the announcement was made at the Chinese-built African Union (AU) headquarters in Addis Ababa half a century after former Premier Zhou Enlai announced the original principles of China’s aid in Africa (see Li, 2007). This chapter elaborates the underlying trends of ‘innovative pragmatic cooperation’ under China’s ‘New Growth Model’ (Garnaut et al, 2013).
The rest of this chapter is structured as follows. The second section presents the static trends defining the China-Africa economic relationship. The third section presents a chronological discussion of China’s economic development, with a focus on seminal turning points that may have most impacted economic ties with Africa. The final section reflects the future of China-Africa ties.

2. Economic Trends

2.1 Aid

When China started experimenting with a policy programme of ‘openness and reform’ in 1979 the national rate of poverty was higher than in Africa as a whole (Ravallion, 2009). For many decades prior, however, this fact did not prevent China from providing then mostly political aid to Africa (see State Council Information Office 2011). Data on China’s now rapidly increasing and more economic-oriented foreign aid is however, and unfortunately scarce. For example, no official numbers for China’s foreign aid use Organisation of Economic Cooperation and Development (OECD) aid definitions. This makes reliable level and effectiveness comparisons to the majority of international aid funding impossible. In recent years China has however, begun to publish a series of foreign aid white papers, of which China’s Foreign Aid 2014 (Information Office of the State Council, 2014) is the most recent. A handful of aid researchers have in parallel painstakingly produced estimates of China’s aid. This analysis relies on that work by Kitano and Harada (2015), whose research constructs a proxy that attempts an extensive estimation of China’s foreign aid using OECD categorisation.

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1 Noted by a Chinese government representative as not intended to be a statistical yearbook of China’s foreign aid (UN China in the World seminar, 2014).
Around half of China’s total foreign aid goes to countries in Africa (2011 White Paper; Information Office of the State Council, 2014). These aid levels are nonetheless small relative both to the aggregate monetary value of China-Africa economic ties and also the total foreign aid volumes going to African countries. China’s aid is, however, increasing both absolutely and relatively. China’s aid is increasing in terms of net value, this being the difference between foreign aid and the repayment of earlier aid-related loans. According to Kitano and Harada (2015) the annual rate of increase since 2001 is greater than 15 per cent. According to China’s aid figures, by 2013 this produced total net foreign aid of some US$7bn, implying some US$3.5bn of aid to Africa. By comparison, Kitano and Harada (2015) estimate that in 2013 China’s OECD-comparable foreign aid figure reached the higher sum of RMB43,938mn (US$6.6bn) (Figure 1).

By sector, transport, storage, energy and communications sectors receive a large share of China’s foreign aid. This reflects China’s industrial interests and relative competitiveness in these sectors, and also that Western aid has recently been directed toward relatively more health and education (Amusa, Monkam and Viegi, 2016; Foster, 2009). China’s concessional loan portfolio is extensive (Kitano and Harada, 2015). In general however, the lack of
systematic and detailed cross-country time series loan data has led to a tendency to overestimate the scale of China’s lending to Africa (Benabdallah, Robertson and Wang, 2016).

Given these broader data constraints, quantitative research on China’s foreign aid and concessional lending to Africa is limited. A recent exception employs a series of fixed effects regressions to show that current political leaders’ birth regions receive substantially larger financial flows than other regions, but there is no evidence that leaders shift aid toward regions populated by groups who share their ethnicity (Dreher, Fuchs, Hodler, Parks, Raschky and Tierney, 2015). Qualitative research is more extensive (see Tan-Mullins, Mohan and Power, 2010; Brautigam, 1998; Brautigam, 2010; Li, 2007), but this is not elaborated on here.

2.2 Trade
Structural change in China and the associated policy shifts in the mid-1990s (Section 3) helped to induce fast-rising trade flows between China and Africa. The earlier momentum in China’s industrial development produced a near insatiable demand for raw materials and energy, which Africa has in ample supply. A result was that China traded extensively with African democracies and autocracies alike, making it doubtful that an African country’s regime type explains much about its trade with China (Eisenman, 2012: 793).
Figure 2 portrays the twenty-year Sino-African trade boom. During the boom the most dramatic increase in exports from Africa to China over the period. Specifically, African data reports that total exports increased from $US462mn in 1995 to some $US39.5bn by 2015 (IMF, 2016). Dominated by China’s demand for commodities, these imports by China were however, lumpy across countries (Table 1). China’s low-cost manufactured exports to Africa on the other hand were sold relatively consistently across countries.
Table 1: Share of exports to China (%), selective SSA countries, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Share (%)</th>
<th>Country</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gambia, The</td>
<td>47.5</td>
<td>Equatorial Guinea</td>
<td>16.5</td>
</tr>
<tr>
<td>Congo, DRC</td>
<td>43.1</td>
<td>Gabon</td>
<td>15.4</td>
</tr>
<tr>
<td>Angola</td>
<td>42.8</td>
<td>Central African Republic</td>
<td>14.1</td>
</tr>
<tr>
<td>Congo, Rep</td>
<td>41.4</td>
<td>Niger</td>
<td>13.8</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>31.1</td>
<td>Ethiopia</td>
<td>11.7</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>27.6</td>
<td>South Africa</td>
<td>11.2</td>
</tr>
<tr>
<td>Zambia</td>
<td>25.9</td>
<td>Togo</td>
<td>11.1</td>
</tr>
<tr>
<td>Liberia</td>
<td>20.7</td>
<td>Mozambique</td>
<td>10.1</td>
</tr>
<tr>
<td>Cameroon</td>
<td>16.7</td>
<td>Rwanda</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Source: IMF, Direction of Trade Statistics.

Table 1 presents the 2014 share of China-bound exports within total national exports where this level reached 10 per cent or more. Top of the list The Gambia’s main export to China is timber that is re-exported from neighbouring countries. The majority of that timber is illegally smuggled across the border from Senegal: “Senegal has lost more than a million trees since 2010 while farmers in Gambia have pocketed $238 million exporting the wood to China where the desire for furniture has exploded in the last few years,” (The Herald, 2016, accessed 08.06.16). The dominance of fuel and mineral exporters among countries with exports that are relatively dependent on China, together with cases of illegal trade such as a significant share of the timber exported via The Gambia, makes Beijing the focal point of new anti-Chinese resistance narratives in Africa (Eisenman, 2012: 793).

Moreover, a long history of work in macroeconomics shows that the presence of natural resources has tended to hinder and not to foster long-run development (eg. Sachs and Warner, 1999; Deaton, 1999). Raw commodities trade in general does not generate significant value added or enough jobs (UNECA, 2013) and also increases countries’ exposure to international exogenous shocks (Gui-Diby and Renard, 2015). Those African countries having recently exported large quantities of high-priced raw materials have in turn broadly failed to utilise the returns to diversify their trade and economies. An index of diversification published by the United Nations Conference on Trade and Development (UNCTAD) finds that in three-quarters of African countries the share of primary products in exports is equal to at least 50%, and 90% in one third of these countries (UNECA, 2013).

As implicitly suggested by the fall in trade flows in 2015 (Figure 2), recently China’s demand for commodities has fallen. Factors driving the decline in demand for China’s exports, which mainly comprise manufactured products, include rising costs. These latter derive from the fact that industry-induced environmental degradation has reached public tolerance thresholds forcing up environmental standards and costs and rising domestic wage pressure.
There was also a structural decline in demand for China’s exports following the Global Financial Crisis. These are elaborated in Section 3. The global reach of China’s economy mean that those changes have also adversely impacted international commodities prices, compounding the fall in value of China’s imports from resource-rich Africa. The broader implications for Africa are discussed in Section 3.

2.3 Investment

Four categories of Chinese investors in Africa have been identified – central-state-owned firms, provincial-state-owned firms, Chinese private firms incorporated in China, and small firms operating in Africa owned by independent Chinese ‘migrants’ (Kaplinksy and Morris, 2009). Each category has its own distinct characteristics, but state-owned investment is uniquely and often strategically bundled in with aid and trade (Ajakaiye and Kaplinsky, 2009: 481). Private Chinese firms investing in African countries are also typically much smaller than the big SOEs, which dominate the ‘mega-deals’ (Chen, Dollar and Tang, 2015: 6). Where infrastructure and resources dominate the latter, by project the services sector dominates (Chen, Dollar and Tang, 2015: 6). Services sector projects are nonetheless clustered in countries that are resource-abundant, and there are also a significant number of projects in manufacturing (Chen, Dollar and Tang, 2015: 6).

China’s FDI flows complement China’s factor endowment structure, meaning in Africa they flow disproportionately to resources-exporting economies (National Bureau of Statistics, 2015). China’s FDI flows to Africa reached $26bn, compared to US$22bn going to the US in 2013, despite the relatively small weight of African economies internationally (Chen, Dollar and Tang, 2015: 6). Converse to patterns of trade – which is proportionately more important at the African end – China’s investment in Africa is proportionately more important to China than China’s investment in Africa is for Africa, and is growing rapidly (ibid). This relates to Africa being an important source of fuels and minerals for Africa, and a target for relocation of labour-intensive factories (see Johnston, 2015).

In general however, there is limited if any reliable and accurate Chinese FDI data by investment value. The official data, from the Ministry of Commerce (see Table 2), for example, tends to under-capture the size of outbound FDI (Shen, 2015). Investment projects that are loan financed also do not appear in China’s FDI statistics, and nor do acquisitions of African assets that take place in a third jurisdiction, such as the more than $US7bn purchase of Addax which was legally transacted in Switzerland (Brautigam, SAIS-CARI, 2016). Together with the fact that a not insignificant but unquantified share of China’s FDI passes via Hong Kong and other off-shore financial centres, China’s outbound FDI flows are
probably significantly higher than these official statistics, here presented for selective years in Table 2, suggest.

Table 2: Selective FDI flows and policies, China and African countries

<table>
<thead>
<tr>
<th>Country</th>
<th>FDI Inflow, US$mn</th>
<th>BIT Status</th>
<th>Double-Taxation Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2010</td>
<td>2014</td>
</tr>
<tr>
<td>Angola</td>
<td>0.47</td>
<td>101.11</td>
<td>-448.57</td>
</tr>
<tr>
<td>Benin</td>
<td>1.31</td>
<td>1.76</td>
<td>7.44</td>
</tr>
<tr>
<td>Botswana</td>
<td>3.69</td>
<td>43.85</td>
<td>52.95</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td></td>
<td>4.45</td>
<td>n/a</td>
</tr>
<tr>
<td>Burundi</td>
<td></td>
<td>3.45</td>
<td>n/a</td>
</tr>
<tr>
<td>Cameroon</td>
<td>0.19</td>
<td>14.88</td>
<td>29.74</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>0.32</td>
<td>-0.46</td>
<td>0.1</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>25.81</td>
<td>182.24</td>
<td>n/a</td>
</tr>
<tr>
<td>Chad</td>
<td>2.71</td>
<td>2.13</td>
<td>83.12</td>
</tr>
<tr>
<td>Comoros</td>
<td>-0.01</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Congo</td>
<td>5.07</td>
<td>34.38</td>
<td>238.6</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>8.74</td>
<td>-5.02</td>
<td>24.26</td>
</tr>
<tr>
<td>Djibouti</td>
<td>4.23</td>
<td>9.53</td>
<td></td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>6.35</td>
<td>22.08</td>
<td>33.13</td>
</tr>
<tr>
<td>Eritrea</td>
<td>2.94</td>
<td>1.29</td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>4.93</td>
<td>58.53</td>
<td>119.59</td>
</tr>
<tr>
<td>Gabon</td>
<td>2.08</td>
<td>23.44</td>
<td>25.56</td>
</tr>
<tr>
<td>Gambia</td>
<td></td>
<td>0.05</td>
<td>n/a</td>
</tr>
<tr>
<td>Ghana</td>
<td>2.57</td>
<td>55.98</td>
<td>72.9</td>
</tr>
<tr>
<td>Guinea</td>
<td>16.34</td>
<td>9.74</td>
<td>67.7</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>2.05</td>
<td>1.72</td>
<td>n/a</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.6</td>
<td>101.22</td>
<td>278.39</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0.56</td>
<td>0.46</td>
<td>n/a</td>
</tr>
<tr>
<td>Liberia</td>
<td>8.65</td>
<td>29.89</td>
<td>40.11</td>
</tr>
<tr>
<td>Madagascar</td>
<td>0.14</td>
<td>33.58</td>
<td>36.76</td>
</tr>
<tr>
<td>Malawi</td>
<td>9.86</td>
<td>3.4</td>
<td>n/a</td>
</tr>
<tr>
<td>Mali</td>
<td>3.05</td>
<td>23.39</td>
<td></td>
</tr>
<tr>
<td>Mauritania</td>
<td>0.36</td>
<td>5.77</td>
<td>-7.33</td>
</tr>
<tr>
<td>Mauritius</td>
<td>2.04</td>
<td>22.01</td>
<td>49.43</td>
</tr>
<tr>
<td>Morocco</td>
<td>0.85</td>
<td>1.75</td>
<td>11.44</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.88</td>
<td>0.28</td>
<td>102.51</td>
</tr>
<tr>
<td>Namibia</td>
<td>0.18</td>
<td>5.51</td>
<td>8.02</td>
</tr>
<tr>
<td>Niger</td>
<td>5.76</td>
<td>196.25</td>
<td>-44.61</td>
</tr>
<tr>
<td>Nigeria</td>
<td>53.3</td>
<td>184.89</td>
<td>199.77</td>
</tr>
<tr>
<td>South Sudan</td>
<td></td>
<td>-6.82</td>
<td>n/a</td>
</tr>
<tr>
<td>Rwanda</td>
<td>1.42</td>
<td>12.72</td>
<td>14.94</td>
</tr>
</tbody>
</table>
According to 2014 FDI data, the top ten recipients of Chinese investment in order were Zambia, Kenya, Congo, Nigeria, Central African Republic, Sudan, Tanzania, Congo DRC, Ethiopia and Mozambique (Table 2). East African countries feature prominently in the list for a number of reasons. Firstly, three East African countries were listed in as the preliminary official targets of China’s push into labour-intensive manufacturing outside of China – Ethiopia, Kenya and Tanzania (see Johnston, 2015). Accordingly, Kenya is the primary African hub of China’s flagship Silk Road (outbound investment) initiative. Modern-day Kenya also carries historical significance in the abstract context of the national drive for rejuvenation in that it is home to the landing site of China’s Ming Dynasty maritime fleets. Contemporarily, the East African Community grouping of which Kenya is part also comprises a customs and single market trading union. China is a leader among an increasing array of international investors offering loans and construction capacity toward a series of cross-country investment projects. These are intended to unlock the East African market for its own growth and to China’s investors and consumer goods.

A second explanation for a relatively prominent role for East African countries, especially coastal East Africa, can be understood through an applied economic geography lens. Specifically, under China’s old growth model the significance of economic geography and growth to potential long-run transformation in Africa was largely ignored (Johnston, Morgan and Wang, 2015). ‘Old’ here refers primarily to a growth model that was intensive in use of resources, investment in fixed capital and in using exports for growth (see Section 3 and
Garnaut, Fang and Song, 2013). As is elaborated in Section 3, China’s ‘new normal’, however, offers Africa’s long-run growth-strategic coastal and resource-poor economies a triple benefit: 1) a positive shift in the terms of trade; 2) improved prospects for industrial-sector labour-intensive foreign investment; 3) greater investment infrastructure that unlocks ports and intra-country transportation. This in turn may better serve to overcome Africa’s unusual economic geography hurdles including a high number of landlocked countries and a high share of population in resource-rich economies (eg. Venables, 2010) and poverty traps also (see Collier, 2008). In the process it is intended also to create new markets for China’s goods and financing concurrent with taking advantage of Africa’s youthful workforce as populations elsewhere age rapidly.

In addition to China’s capacity and willingness to invest and recipient country absorptive capacity, the success of China’s Africa investments is also dependent on the quality of the respective bilateral commercial relationship (Broadman, 2006: xix). Many policies shape bilateral China-Africa commercial relationships. These are selectively elaborated in China-Africa Economic and Trade Cooperation (2013), China’s Foreign Aid (2014), and in Johnston and Cheng (2015). Table 1 presents the cornerstone Bilateral Investment Treaty and double taxation treaties. Related research suggests some eighteen countries have enacted a BIT with China, and a further thirteen have signed such an agreement but not yet entered it into law (Table 2). Nine countries in SSA have agreed a double-taxation agreement with China.
3. China's changing growth model

An important caveat to the next section is that the choice to focus on China should not be taken to mean that macroeconomic change in African economies is unimportant to the China-Africa story. In a handbook that otherwise focuses on Africa, this chapter prioritises elaborating the China-side of the China-Africa economic story.

3.1 China's Old Growth Model – and Africa

For three decades, until 2011, China’s average growth rate was nearly 10 percent. In the process millions were lifted from poverty and the global structure of production and distribution of GDP was re-shaped (see Garnaut, Fang and Song, 2013). China became the locus of most production of manufactured goods for global markets, and the buyer of most of the growth in supply of energy and metals. A number of related turning points in China in the 1990s transformed ties between China and Africa to those described in Section 2.

First, China became a net importer of oil in 1993, and in 1995 its export of machinery and electronics exceeded those of textiles and clothing (Lin and Wang, 2014: 4). To ensure access to needed oil supplies China’s largely state-owned oil sector was consequently forced to more deeply integrate with global oil markets. A late entrant among today's major players into the global oil sector, China’s state-owned oil giants were forced to enter higher-risk frontier oil markets. This led to Sudan and Angola becoming more prominent among international oil suppliers. Angola became a member of the Organization Petroleum Exporting Countries (OPEC), in 2007, thanks to a China-led oil investment boom.

Beyond minerals and fuels, historic forest loss means that China is one of the most forest-deficient countries in the world, with national forest cover of just 22 percent compared with a global average of 31 percent (FAO 2012, cited in Buckingham, 2016). China is one of the most water-stressed countries in the world too, with just 6 percent of the world’s freshwater but 21 percent of its population (Wong, 2013, cited in Buckingham, 2016). Advanced competitive industrial manufacturing chains in China nonetheless mean that since 2000 the country is the main processing hub for the world’s forestry sector. These trends have driven deeper – formal and informal - trade ties between China and resource-rich countries. Gabon, Congo Republic, Cameroon and Mozambique are among China’s key timber suppliers in Africa. Extensive fishing over decades in Chinese waters and heavy demand for seafood have also pushed Chinese
fishermen further afield. Illegal fishing in African waters, recently and for example intensively in unguarded waters of poor West African countries (Greenpeace 2015; Nelson 2016) has become a challenge.

Concurrent to these developments, China’s economic policies evolved to support them. Starting in 1994-1995 China’s aid and state-financing architecture underwent major reform with the creation of three state-owned policy banks: China Development Bank (see Sanderson and Forsythe, 2012), China Export-Import Bank, and China Agricultural Development Bank. From acquisition of oil to timber, these banks became the principal financiers of China’s resources spree. They are also integral to a broader strategy to create export markets concurrent with attempting ‘win-win’ development outcomes with related partner countries.

A process of SOE reform was also begun in the mid-1990s. Under the reforms SOEs were stripped of selective government, regulatory and public responsibilities, and at the same time forced to face greater domestic and international competition – such as the oil majors having to compete in global oil markets. An outcome of the Asian Financial Crisis of 1997-98 supported the process. China, like more crisis-affected countries in the region, had then begun building strategic foreign exchange reserves, which the government was urged to transfer to SOEs in support of acquisition of international assets. At the same juncture, a central mandate also directed that China should “combine aid to Africa, mutual cooperation, and trade together” (Brautigam, 2009: 80). Finally, China began negotiations to join the World Trade Organization in 1994. And so, President Jiang Zemin’s visit to Africa of 1996 is roughly marks a shift in the driver of China’s relations with Africa from geopolitics to economics (Alden, 2007; Jiang, 2012).

Over these early reform decades and until the Global Financial Crisis of 2008, the primary drivers of China’s decades-long growth miracle were high and rapidly increasing investment levels and export-oriented industrial activity. And these trends were underpinned by a steady flow of workers moving from rural employment to more formal and urban employment. The process of labour transfer from low productivity subsistence rural employment to higher productivity urban employment in economics is captured in the Lewis Model. For its duration, the process produces large productivity gains. These dry up when the supply of rural workers dries up, making labour relatively scarce, a point known as the Lewis Turning Point (LTP). At the LTP wages rise rapidly, and a new less-unit-of-labour-intensive economic driver is required.
Table 3: Basic ageing population empirics, China

<table>
<thead>
<tr>
<th>Year</th>
<th>Total fertility rate*</th>
<th>Life expectancy at birth (years)</th>
<th>Share of population aged 65 and over (% of total)</th>
<th>Number of people aged 65 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>2.7</td>
<td>67</td>
<td>4.5</td>
<td>44,155,575</td>
</tr>
<tr>
<td>1990</td>
<td>2.5</td>
<td>69.5</td>
<td>5.3</td>
<td>60,164,805</td>
</tr>
<tr>
<td>2000</td>
<td>1.5</td>
<td>72.1</td>
<td>6.7</td>
<td>84,597,215</td>
</tr>
<tr>
<td>2010</td>
<td>1.7</td>
<td>74.9</td>
<td>8.2</td>
<td>109,691,810</td>
</tr>
<tr>
<td>2014</td>
<td>1.6</td>
<td>75.8</td>
<td>9.2</td>
<td>125,512,840</td>
</tr>
</tbody>
</table>

* Excludes data for Hong Kong SAR, Macau SAR and Taiwan.

Source: Johnston, Liu, Yang and Zhang (2016)

Importantly for Africa’s industrialization hopes, China’s labour cost advantages are now diminishing. Data in Table 3 illustrate recent the demographic trends underlying that bigger economic story. Thanks to the evident consistent falls in the total fertility rate and gains in life expectancy, the share of total population aged over 65 years is increasing - the share has more than doubled since 1980. This means that China’s workforce share of population is also falling, since around 2009. The arrival of increasingly rapid population ageing and the Lewis Turning Point (complete absorption of surplus rural labour) in China is also serving to increase labour scarcity and wage pressures. Over the past few decades China’s labour advantage presented a direct and imposing challenge for Africa’s basic manufactures exporters since “Africa has no significant advantage over Asia in terms of labour costs while having large disadvantages in terms of agglomeration economies” (Collier, 2006). Now in contrast, China’s economy is moving in a direction that is of a structure that is more complementary with Africa’s own development.

3.2 China’s New Growth Model – and Africa

Growing labour scarcity and higher labour costs, alongside emerging shifts in priorities for development, now instead have synthesized a “new normal” growth model, since 2011. China’s New Growth Model is characterised by falling investment intensity as a share of GDP, lower demand for metals and energy, and a shift in emphasis from industrial development to innovation, and consumption and production of services (see Garnaut, Song, Fang and Johnston, 2016). In general, there is a shift away from resources-intensive and export-led growth, toward more consumption, services and innovation-led growth. There is also a greater importance for China in utilising its high level of savings to realise growth via outbound investment. The latter can serve also to internationalise selective excess domestic capacities, such as light goods manufacturing and steel, via establishing factories in low-income economies with high growth potential. Growth of some 6 per cent is expected, in
place of earlier double-digit growth rates (ibid). China’s economy is however much larger now, meaning the volume of growth that China’s economy generates will remain very large.

The associated structural decline in China’s demand for resources has however, also induced the end of the decade-long China-led commodities price boom (Garnaut, 2012). This had offered a massive recent growth spike in export revenues in Africa. In that wake, many of the continent’s fuel-exporters now face macroeconomic distress. As in China itself, growth of many of the region’s resource exporters have fallen, but in Africa’s case from double-digit rates toward zero (IMF, 2016). Fiscal limits are consequently being stretched beyond sustainability (ibid). On the other hand, for Africa’s net resource importing countries these changes are positive news (Johnston, 2015a). Given the earlier discussed challenges of resource-led growth together with the related adverse consequences of China’s Old Growth Model for relatively richly labour-endowed countries, in the medium and long-term China’s now transition may in fact reflect a ‘Boom to Cusp’ turning point that instigates a more diversified integration of African economies into the world economy (ibid). Here the related arguments around outbound capital investment, demographic and human capital investment trends are summarized.
3.2-1 Outbound Investment in Physical Capital

Figure 3: Inbound and outbound FDI, China


As Figure 3 reveals, China’s outbound investment has risen dramatically since the early 1990s. A policy to encourage targeted outbound investment was launched in the late 1990s. The “Going Out” policy provides incentives to Chinese firms to invest abroad in the acquisition of natural resources, to offshore certain industries, and to build global Chinese brand names. Africa’s abundant natural resources, youthful population and market development potential make it a target of that investment push (Section 2).

Within investment targeting Africa, infrastructure is presently a big focus (see Foster, 2009). Of the US$60bn of lending China promised to African countries in late-2015 at the FOCAC Summit in Johannesburg, more than half will be spent on building infrastructure (Awoko, 2016, accessed 29.07.16). China has specifically promised to build the ‘Three Major Networks’ – railway, road and regional aviation. A flagship and Silk Road-connected project among these is the Standard Gauge Rail project, which
will initially better connect Kenya’s main port at Mombassa with the capital Nairobi. Onward plans will connect by rail a number of landlocked East African Community country members proximate to Kenya, including Uganda, South Sudan, Rwanda and Burundi. In July 2016, Tanzania also agreed a $US7.6bn loan from China EXIM Bank for the construction of a standard gauge rail corridor that similarly will link Tanzania’s economy with neighbours Uganda, Rwanda, Burundi and Congo (Tanzania Invest, 2016). As noted, both Kenya and Tanzania have historical links to China, in Tanzania’s case in being home of the Tanzara Railway that remains for China an important symbol of its support for the end of colonialism in Africa. This regional-integration approach may also be useful toward overcoming Africa’s economic geography hurdles (see Collier, 2006; Johnston, Morgan and Wang, 2015). There is an ongoing push within the United Nations to change adoption of the phrase ‘landlocked countries’ to ‘land-linked countries’ (Inter-Press Service, 2014). Chinese entrepreneurs and policy-makers, such as Ethiopian shoe manufacturing frontier investor Helen Hai use this language already (UN Media, 2014).

Beyond East Africa, China has promised to help Africa as a continent to build the foundations of an integrated transportation network. An estimate of Africa’s infrastructure financing requirement is some US $38bn annually, with a further US $37bn required annually in operations and maintenance (World Bank, 2013). The sum is the equivalent of 12 percent of Africa’s GDP, the funding gap for which is estimated at US $35bn (ibid). China is also investing in Africa’s power network. The African Development Bank (2014) has estimated that infrastructure gaps reduce African GDP by some 2 percent annually.

The first standard gauge railway built by China in Africa (and the first outside of China at all) was opened in July 2016, in Nigeria. In October 2016 these infrastructure plans marked a milestone with the opening of Africa’s first fully electrified railway – a 750km-long railway line linking landlocked Ethiopia with neighbouring Djibouti’s port, cutting the journey from 3 days by road to about 12 hours. Chinese firms are in parallel investing in iron ore projects, and cement and steel plants (see Johnston, 2016b). In the power sector, the International Energy Association estimates that between 2010 and 2015 China invested around $13bn in power projects in Africa, dwarfing the sums invested by any other foreign investor (Global Construction Review, 2016). A not insignificant share of this is in the renewables sector also, opening new markets for China’s technologies and helping to relatively preserve the local and international ecosystem.
Such projects are not however without their own set of issues. In Botswana in late 2013 the government refused to renew China National Electric Equipment Company’s operation and maintenance contract. In place, a German company STEAG Energy Services got the contract on grounds of greater quality assurance. China’s loan portfolio monitoring and evaluation is unique (primarily in being different to OECD benchmarks), but not lacking stringency (Aguilar and Goldstein, 2009: 1558). Angolan public servants report that Chinese officials are rigorous and demanding when it comes to the use of the credit line and the meeting of its conditions (ibid). Similarly, Farrell (2016) finds that perceptions of the quality of Chinese-constructed roads in Africa are on average worse than the actual quality level delivered. The higher density of Chinese firms active in in lower-quality road construction may be one of the causes, in place of Chinese firms failing on average to deliver in higher-grade projects.

3.2-2 Lending Institutions Reform

In support of those infrastructure and broader set of investments, and in echo of the creation of Chinese policy banks in the 1990s, China has recently led or jointly establishing new international financial institutions. Specifically, China led the establishment of multilateral lending agencies, including the Beijing-based Asian Infrastructure Investment Bank and the Shanghai-based BRICS Development Bank. The latter has among its aims being the world’s greenest multilateral lending agency. A $US40bn Silk Road Fund was established in 2014 to foster development along China’s new silk road project that broadly sweeps across Asia and the Indian Ocean. A South-South Climate Cooperation Fund with some $US3bn in funds was also announced in 2015 to provide assistance to developing countries on climate issues. The domestic and multilateral financing mechanisms available to Chinese firms for financing their outbound investment plans have in other words recently increased dramatically.
3.2-3 Demographic Dividend and Human Talent Development

Figure 4: Demographic dividend trends, China and Africa

Figure 4 illustrates the shifting demographic dividend over coming decades – in the cases presented, from China to Africa. Recent high fertility rates and falling child mortality rates in Africa are converging to produce a windfall working age workforce share – akin to what China was able to utilise to transform its economy over recent decades. Now in China however, family planning-induced falls in fertility rates are in contrast producing a rising old-age dependency ratio. In other words, an increasing population share of dependent old. China, in turn, faces rising wages and the need to increase productivity per worker in order to maintain total output per person. Outsourcing may help at the margins. Wage comparison between China’s historic labour-intensive manufacturing heartland of the southern province of Guangdong against those costs in industrial park in Ethiopia highlight the potential for low-wage labour-intensive outsourcing from China to Africa. Where the minimum wage in 2016 in Guangdong is some US$300 (China Labour Bulletin, 2015), in Ethiopia’s Hawassa Industrial Park, expected to open in October 2016, the average wage will be some $US50 monthly (Addis Fortune, 2016, accessed 29.07.16).
Alongside these more commercial and physical capital investments, China is actively supporting the development of the human capital in Africa also. At the level of training and education, in late 2015 China’s President Xi Jinping announced 40,000 training opportunities for Africans in China, and 30,000 government scholarships (MacGregor, 2015). At the education infrastructure level, China has furthermore promised to help build regional vocational education centres and several capacity building colleges so that African countries can generate a sufficient number of professional technicians to support their expected medium-term development.

Examples of China’s higher education investments in West Africa include the funding and constructing the Fendell Campus for Engineering at the University of Liberia (Aid Data 2016) and also the Ghana Medical University that has since established partnerships with several Chinese medical universities (Ghanaweb, 2016). In mid-2016 the China Shenyang University of Chemical Technology also agreed to the establishment of a Chemical University of Technology in Nigeria. Examples of agreed Chinese investments in East Africa’s education sector include an agreement to construct Africa’s largest university library at the University of Dar es Salaam in Tanzania (Xinhua 2016); and an agreement between Mount Kenya University (MKU) and the China University of Petroleum to ensure that MKU can train a sufficient number of high quality oil and gas experts for Kenya’s human resource needs. The Chinese-funded Malawi University of Science and Technology, the country’s fourth public university, opened in 2014. These examples on the other hand, provide no evidence that such projects will be completed and operational without constraints. They do, however, highlight a pattern of investment that is complementary to the recent OECD donor push in the primary education sector (see Johnston, 2015b).

Importantly also, China has since extended its early outbound focus on Kenya, Tanzania and Ethiopia into a broader grouping of countries. In focus now are ‘demonstrating and pioneering countries’, including Kenya, Tanzania and Ethiopia, plus the Republic of Congo. Priority partners include Angola, Egypt, Guinea, Mozambique, Rwanda, Senegal, Sierra Leone, Togo, Uganda and Zambia. South Africa is considered an engine of China’s win-win industrialisation effort with African countries. Such a grouping of countries includes the continent’s most advanced economy – South Africa, and some of its poorest, including Guinea and Sierra Leone. The list also includes coastal economies and landlocked economies, as well as countries considered resource-poor and resource-rich. China’s investments across them, human and physical, should be expected to increase rapidly in the near future.
4. Discussion

China, the world’s largest developing country, second largest economy, and home to the world’s largest pool of savings, is now a major economic partner of Africa. Moreover, in recent year’s the structure of China’s own development has shifted in ways that are more favourable to Africa’s own long-run development than has been the pattern of earlier recent decades. New institutions include the Silk Road Fund and the Asian Infrastructure Investment Bank have been established at China’s instigation to support China’s next economic development phase. These have their eye on green investments in infrastructure in Africa and elsewhere. China is similarly investing in the development of African human capital, though scholarships, establishing higher education institutions in Africa and setting up educational partnerships and exchange between these, existing institutions and Chinese universities. These improvements in physical and human capital in each of Africa and China, and between them, should be expected to support mutual development including arising shifts in demography, in particular the imminent rapid ageing of China’s population. A positive outcome to China’s Africa return could induce a larger return for Africa, in terms of sustained integration with global value chains.

New opportunity nonetheless will bring its own challenges, and neither offers a solution to all earlier challenges. For example, there are in general fears that China’s vision for its own greener environment may end up exporting this type of damage to other countries (Thiel and Sun 2016). In the forestry sector specifically there are also fears that as Chinese wood product manufacturers increasingly sell to a domestic and not a Western market, pressure to sustainably source timber will diminish, and that this could be catastrophic for forests under vulnerable management in Africa and elsewhere (World Agroforestry Centre, 2016). China’s President has promised that for China’s part it will make great efforts to ensure the preservation of Africa’s environment coincides with development of the region’s economies. In the face of smuggling and corruption however, this will take immense political will and persistence. African governments and civil society must invest time and resources to ensure optimal sustainable development outcomes for their continent.

At the macroeconomic level also, just as the difficulty in predicting the duration of price shocks has limited the ability of African policymakers to manage commodity booms and slumps (Cashin and Pattillo 2000), so may future price shocks even if less China-led. A greater risk is perhaps also that new opportunity passes, without sufficient development gains being realised. African country and regional means of endogenizing new opportunity for development will be unique to these environments and those of the world economy over
coming decades. It may thus for example be timely for China to invest in policy research and data collection that can more optimally inform and support the immense emerging potential for win-win development between China and African countries. Extensive further research is required both to understand China’s economic impact on Africa, and also the best means via which African countries, individually, regionally and collectively, can grasp the potential of these new and probably more long-run average favourable international economic conditions for development.
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