

**AFRICA CONSULTATIVE CONFERENCE ON CREATING BETTER
BUSINESS ENVIRONMENTS FOR ENTERPRISE DEVELOPMENT,
ACCRA GHANA, 5-7 NOVEMBER 2007**

REPORT ON CONFERENCE THEME 1: IS AFRICA TURNING EAST? by Gerald Schmitt,
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Background

The presentation focused on Africa's engagement with China and implications of this engagement for Africa. It highlighted major trends in trade and aid relationships between the continent and China. It noted that China has significantly increased its ODA to Africa and accelerated the pace of its investment and trade with Africa. China's aid to Africa is unconditional, except for the one China policy, but tied. The trade relationship between China and Africa mirrors that between Africa and the developed countries i.e. Africa export raw commodities to China while China supplies machinery and manufactured good in return. Most Chinese investments in Africa are greenfield and focus on the exploitation of natural resources especially petroleum products.

While Africa seems to benefit from the relationship in the short term, the long term implications could be negative if the continent does not define appropriate strategies to deal with China. The paper highlighted the short and long term implications for China's engagement with Africa and suggested areas where donor support could strengthen Africa's position with regard to engaging China in a mutually beneficial and win-win relationship.

Opportunities for donor engagement

| | What to support | Why | Who to support | How |
|---------------------|--|--|--|--|
| Public Institutions | <ul style="list-style-type: none"> - Develop LT strategy for dealing with China - Economic diversification | <ul style="list-style-type: none"> -To ensure a win-win relationship -To lessen dependence on commodity exports | <ul style="list-style-type: none"> - Governments - Governments - Private sector | <ul style="list-style-type: none"> - Strategy development - Negotiating trade agreements - Export diversification strategies - Make ODA more efficient |
| PPD | <ul style="list-style-type: none"> - Private sector development more broadly - Private sector's contribution to policy development | <ul style="list-style-type: none"> - Strengthen Africa's economies - Ensure policies are sensitive tops concerns | <ul style="list-style-type: none"> - Governments - Private Sector | <ul style="list-style-type: none"> - Capacity building, - Policy development - Dialogue mechanisms |

Key issues arising

Any lessons learned regarding Chinese ODA? What are we doing to engage the Chinese?

There are hardly any instances of collaboration with China on ODA matters. China's ODA is neither documented nor disclosed. Its cooperation with Zimbabwe, Sudan and others has weakened the conditionalities imposed by the west. However, pressure on China to reform, given its expanding ODA is mounting. Nevertheless, inconsistencies in approaches taken by western countries pose some problems. To take an example, the USA strongly supports Equatorial Guinea and might not be in position to hold China accountable on Sudan. There is need for dialogue with China through the OECD, NEPAD and other fora.

The boom occasioned by high commodity prices means more money for Governments? Where will the incentive to diversify come from?

The 'Dutch disease' is a serious phenomenon and must be treated seriously. There is need to ensure that prudent macro-economic policies are in place during the booms to minimise dangers such as high inflation.

China has taken a risk on Africa. This contrasts sharply with western companies which are selective with regard to how and where they invest in Africa.

Chinese firms, especially the state owned ones benefit from Government patronage in order to invest and survive in Africa. To Chinese firms, Africa's business environment appears alright. China has a serious Africa strategy which is premised on accessing the Continent's raw materials. This approach is starting to put lots of pressure on western firms to invest in Africa.

China is a new actor among donors. Labour standards in China can be appalling. What can be done?

China is not immune to criticism and can respond. Timber is a case in point where China responded positively after its timber export policies were criticised. The question is whether China has the capacity to control and oversee its private enterprises operating in Africa.