

Is Africa Turning East? China's new engagement in Africa and its implications on the macro-economic situation, the business environment and the private sector in Africa¹

By Gerald Schmitt, Economic Section of the Africa Department of German Technical Cooperation, GTZ, Eschborn, Germany

EXECUTIVE SUMMARY

China is one of the new donors that emerged in the past few years. China's interventions in Africa have a substantial impact on the macro-economic situation of the continent and its countries, on its politics and policies, its business environment, its private sector, trade, environment, etc. It is less the relative importance of China's interventions in Africa that has triggered high attention at international level, but the speed with which the Chinese government and Chinese companies are expanding their presence and influence on the African continent. Even China's foreign direct investment in Africa is still low today compared to the "traditional" investors, but if it continues to grow at its current speed, the future impact might be tremendously high.

Thus, China's new engagement is one of the reasons why the African continent got back into the focus of attention of development cooperation and international investors. All in all, Africa is in a winning position, regaining international investors' confidence and getting wider access to grants and loans needed for urgent public investments in infrastructure and productive use of its abundant natural resources. Today, China's focus of interventions is shifting from classical ODA managed by government institutions to commerce-based economic ties driven by private companies and corporate state owned enterprises. It is the complementarity of public and private action that makes China that successful in penetrating the African market and its economies.

The balance of trade between China and Africa is altogether positive for Africa. But a closer look at its components reveals that the picture strongly varies between different types of countries. The resource rich countries of Africa still risk staying trapped in extracting and exporting their resources without benefiting from spill over effects to the entire economy. Resource poor countries whose economy is still mainly based on agricultural products benefit from a growing demand in China and affordable imported manufactured goods, but their balance of trade tends to be negative. If they do not manage to enter into food processing, their long term development perspectives do not seem to be very promising. Resource poor countries with light industries, like South Africa, enter in direct competition with goods from China, be it on the regional or the global markets. As their private sector is not yet competitive on the world market, and does not benefit from public subsidies and preferential loans (as well as an undervalued currency), it is hit hard by competitors from China.

Therefore, the long term development perspectives of this "second chance for Africa" heavily depend on how Africa and its governments handle the situation and whether the African private sector is able to benefit from increased FDI in a sustainable manner. The elaboration and implementation of an enabling framework for the private sector and the incentives that can be put in place through trade agreements, currently under negotiation what concerns the EU, might play a decisive role. It is evident that China has a clear political and economic strategy with regard to Africa. But Africa and the African states have not yet elaborated a China policy. It is time to work on this issue.
