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 Africa

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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.

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1 The paper focuses on Sub-Saharan Africa alone.
0. Introduction

China's new involvement with Africa receives exceptional attention at international level. Chinese aid, trade and investment in Africa have increased dramatically since the early 1990s. In the last years, China's engagement with Africa has reached a new peak and continues to grow exponentially. Today, China has definitely acquired the status of a new donor for Africa. Most African representatives highly welcome the Chinese engagement and its philosophy: cooperation for mutual benefit, negotiation on equal level, no interference in internal affairs, access to loans for large infrastructure projects with "no strings attached", greenfield investments in the exploitation of untapped raw materials, etc.

Representatives from the West, on the contrary, tend to adopt a sceptical and critical point of view. China accrues the competition for access to Africa’s raw materials and essentially contributes to the rise in world market prices observed in the last years. It directly competes with the US and other important consumers of petrol for access to Africa’s rich oil resources as well as other minerals and raw materials. China’s soft loans managed by state owned banks compete with loans from traditional donors hitherto largely unchallenged in Africa and undermine their conditionalities. China’s exports to Africa increase dramatically and challenge traditional trade linkages, especially those with former colonies. Even in the UN, China often succeeds in building coalitions of mutual interest with representatives from African states.

The critique from the West mainly refers to China not respecting international standards in the fields of governance and debt sustainability, social and environmental standards as well as the long term development perspectives of African states. China’s interventions are assumed to undermine the governance agenda negotiated in the past years that aims at setting the basis for sustainable development through prudent management of public finance and through setting up an enabling framework for more foreign direct investment urgently needed to sustain growth and increase formal employment. It is argued that China’s main interest is to exploit Africa’s raw materials urgently needed to maintain China’s path of development founded on resource intense industrialisation; but that China has little interest in Africa’s development.

Does China contribute to the development of Africa in the medium and long term? What is the impact of China’s interventions 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.? This paper tries to assess China’s relative importance and the impact of its interventions on the African economy and growth rates as well as on poverty reduction. It describes China’s motives and interests in Africa, its policies and its instruments regarding aid, investment, trade and its underlying political ambitions. Available data is examined and synthesised presenting a relatively objective state of the art of China-Africa relationships in different fields and sectors.
1. China’s involvement with Africa: ODA, FDI and trade

According to China’s Africa policy published in January 2006\(^2\), the Chinese government focuses its cooperation with Africa on the following fields:
- expanding Africa’s infrastructure,
- contributing to agricultural development and the modernisation of agricultural production,
- supporting social development in the health and education sector,
- contributing to peacekeeping missions in Africa under the mandate of the UN and/or the AU,
- consolidating the cooperation in the UN framework.

The institutional framework for its cooperation with Africa is the Forum on China-Africa Cooperation (FOCAC), founded in 2000. All African states are members of FOCAC, except the five remaining countries that recognise Taiwan’s sovereignty (Burkina Faso, Swaziland, Malawi, Gambia, Sao Tomé & Principe). At the 4th China-Africa Summit in November 2006 President Hu Jintao announced that:
- development cooperation with Africa will double until 2009,
- the amount of loans for African states will increase by 5 bn US$,
- a China-Africa Development Fund with an amount of another 5 bn US$ will support Chinese investment in Africa,
- at least 15 000 public staff members will receive training in China and the number of scholarships for African students will double to 4 000 per year in 2009.

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a) Development Cooperation and ODA

An estimate of the percentage of China’s ODA in relation to its GNI in 2005, based on figures recently provided by Wang (2007), demonstrates that China spends 0.65% of its GNI as ODA. This is much more than many European countries and the US.

A further analysis of China’s development cooperation focusing on Africa shows that China’s foreign aid expenditures have risen dramatically from 400 m US$ in 1998 to 1 450 m US$ in 2007.

Wang estimates that about 50% of what the Government of China publishes as funding for “contracted projects” might be considered as ODA. This amounts to a total of 14.8 bn US$ for the year 2005. Others estimate that China spends 5 bn US$ a year what results in 0.22% of China’s GNI only; China then holds the same position as the USA.
China’s bilateral debt relief and net ODA to Sub-Saharan Africa together have exceeded Japan’s ODA in 2006 and closes up to the ODA spent by the US in the region.

Chart 3. Official Development Assistance to Sub-Saharan Africa by Major Donors, 2006
(Billions of US$)

China operates with only one official conditionality: the “One China” principle. It does not cooperate with countries recognising Taiwan. “No other strings” are attached to loans from China according to its government. But Chinese aid is largely tied (up to 70%) to imports from China and services to be delivered by Chinese companies. Given the fact, that China has accumulated 1.3 trillion US$ in foreign currency reserves and starts looking out for productive and politically fruitful investments, we can assume that China’s development cooperation will continue to rise. In the future, China will be in funds of an excess stock of 2 bn. US$ every day.4

b) Chinese investment in Africa

Foreign direct investment (FDI) in Africa is continuously growing since 2003. As regards FDI from China, the available data is insecure and in parts contradictory. The World Bank (Broadman 2006: 12, 97) estimates that cumulated Chinese investment in Africa has exceeded the 1 bn US$ level in 2006 (approx. 1.18 bn US$). According to the Chinese government, Chinese FDI in Africa cumulated to 6.27 bn US$ in 2005 (Vice Minister Wei Jianguo, 2006). This is still relatively low compared to cumulated FDI from the UK (approx. 30 bn US$ in 2003), Germany (5.5 bn US$), France (4.4 bn US$) and the US (19 bn US$).

The difference lies in the type of investments. China is focussing its investments on tapping natural resources and opening up local markets, a strategy pursued by Western companies as well. Investments in production facilities target only some countries suitable to serve as platform for export to regional markets as well as the EU and the US. But Chinese companies engage more often in greenfield investments thus opening up markets

4 See the ongoing discussion about Sovereign Wealth Funds, Finance & Development 09/2007: 56.
considered marginal by Western companies and tapping so far unexploited resources. This contributes to widening the fiscal space of African governments and improving the supply with manufactured goods in remote regions.

It is estimated that about 1,000 Chinese companies operate today in Africa. According to data from the Chinese EXIM Bank, approx. 100 of the 800 Chinese companies having received investment loans are medium to large government owned companies. The remaining 700 companies are private ones. Until now, Chinese companies invest much more in other regions of the world. The cumulated share of Africa has reached only 2% by the end of 2003; ongoing investments in 2003 had a share of 5%. Government owned Chinese banks play an important role in tapping the business potential of Africa. EXIM and China Development Bank (CDB), both government owned, actively support the „going global“ strategy of the Chinese government and provide cheap loans for investments, especially in the energy and mineral resources sectors.

c) Expanding Trade Between China and Africa

Figures on trade relationships between China and Africa show a similar picture. The charts 5-9 show that Africa’s exports to China are dominated by petrol, ore, timber and other raw materials based on extractive industries. Cotton and tobacco are the only exceptions. China’s exports to Africa are much more diversified and mainly consist of consumer products from light industries. The composition of the trade relations between China and Africa is quite typical for commerce between developed and developing countries. The overall balance of trade is positive for Africa on the whole; this is mainly due to the relative importance of Africa’s export of petrol to China. On country level, the image is varying.

The following box shows the difficulties an emerging nation, like South Africa, faces in trade competition with China. Chapter 6 will go in more details concerning China’s impact on different types of African countries.

South Africa’s textile sector, quotas and negotiations about a free trade agreement with China

Exports of textile and clothing from China to South Africa have increased tremendously in the last years and are said to have resulted in an impressive loss of jobs in the sector of about 76,000 between 1996 and 2004. Imports from China in the category of clothing and footwear today have a marketshare of 70% of the total volume of imports. Therefore, South African Textile Unions lobbied for an implementation of quotas on clothing and textile imports to protect the domestic textile industry. Quotas were implemented in early 2007 – but did this move effectively help the South African industry to adapt to the competition with China or were imports from China just replaced by imports from other countries as many domestic producers had already gone bankrupt?

An analysis of the new trade regulations shows that the quotas do not include imports from Hong Kong, though goods imported from there are obviously produced in China. Second, the regulations apply only to imports from China to South Africa – imports to neighbouring countries are not restricted what makes bypassing of the South African quotas relatively easy given that a customs union is in place. Third, the quotas do not cover all textile products, so that imports can easily be declared under a different chapter. Finally, it took quite a long time to fully enforce implementation of the quotas, what has given importers the opportunity to fill their stocks. Furthermore, we need to examine the impact of the quotas on importers and consumers. Given the fact that only existing companies are provided with import quotas, a new market entry barrier for prospective newcomers is installed, reducing competition and minimising its positive effects. Importers will have to identify new suppliers, what is time consuming and results in higher costs. This may affect the South African clothing industry negatively, as input costs for imported raw materials might rise. Considering consumption, it is obvious that the implementation of quotas will lead to higher consumer prices, which contributes to an increase of the inflation and interest rates, again leading to negative impacts on consumers.

5  See annex.
6  See chart 10, annex.
In conclusion, the quotas had a very limited effect and will, additionally, only be effective for two years. In 2009 already, the South African textile industry will not benefit from protection any more. Is this enough time to adapt to world market competition?

Apart from the implementation of quotas, the South African government considers negotiating a free trade agreement (FTA) with China. Exports to China are growing above average at an annual rate of 25.5% (1996 – 2005) with a value of 3,444 m US$ in 2005, mainly dominated by mineral resources. But a FTA is not likely to boost South African exports as the custom tariffs are already close to zero. Actually, the average duty at the Chinese border is quite low with an average of 3.45% compared with the South African average duty of 12.52%. A first quantitative estimation of the impact of a FTA between China and the SACU-countries\(^7\) based on a complete nullification of tariffs and taking non-tariff trade barriers into account results in a mutual increase of welfare. South Africa’s welfare would increase by 121.6 m US$ by 2015 (0,0399% of GDP) compared with an increase by 181 m US$ for China (0,0009% of GDP). Though this sounds generally positive, some sectors of the South African industry, like textile, clothing and footwear production, will be negatively affected.

To conclude, it seems evident that there is no alternative to adjusting and restructuring the South African industry and to become more competitive, be it on the national and regional or the global market. Still, FTA’s can play a positive and accelerating role and make both countries benefit. But the South African industry might still need active support from its government to be able to compete with China in the world market.

In summary, China has definitely become a global player in Africa. This will affect China’s political influence in Africa as well as its competition with other donors in the loan sector. It might also set new priorities and weaken the governance agenda promoted by Western states and NEPAD. Investment in Africa’s infrastructure might become more important than governance and public finance. However, this must not negatively affect Africa’s development perspectives.

2. Chinese vs. Western influence in Africa: The power of a coordinated strategy using all instruments simultaneously

What makes the difference between China’s occurrence and interventions in Africa compared to the West? One of the most important differences is that China does not treat ODA apart from other instruments. Trade relationships, export promotion and development cooperation are all handled by the Ministry of Commerce. Its links with the Ministry of Foreign Affairs are well established as are the connections to state owned enterprises. Therefore, China is more apt to deliver entire “packages” than are donors from the West.

For the sake of illustration a (virtual) example: China’s EXIM Bank disburses a subsidised loan to a state owned petrol company for investment in a claim in an oil field in an African state. The partner government receives a soft loan for construction of a tarred road to the oil field that is executed by a private Chinese construction company. Part of the repayment is in (future) petrol. Further construction works might be financed by grants. The private construction company receives a subsidised loan for opening a branch in the country and engaging in other public works. In the context of the construction works, Chinese immigrants settle in the host country and develop new and stronger ties to the elites and the population of the country.

Asche and Schüller (2007, forthcoming) call this coordinated strategy the fourfold complementarity of Chinese trade and investment in Africa:
- Long lasting investment in shares of African companies holding claims on natural resources and raw materials as well as in the infrastructure necessary for their exploitation.
- Chinese private companies receive subsidised loans for investments in several branches (e.g. construction, but timber, telecommunication, tourism, and pharmaceuticals as well)

\(^7\) Southern Africa Customs Union. Ist member countries are South Africa, Botswana, Lesotho, Namibia and Swaziland.
and production sites (e.g. textiles and today also agribusiness) and benefit from diplomatic support and access to information.

- State owned enterprises and private companies act in a coordinated manner.
- Chinese aid is largely tied to services and goods delivered by Chinese companies (up to 70%). Construction works executed by Chinese companies trigger immigration and contribute directly to further penetration of the economy and the creation of political networks in host countries.

As the private sector, and even development cooperation and foreign affairs, act (more) separately and independently in the West, it cannot fully counter this strategy. Certainly, instruments promoting high risk investment in Africa can be further developed and optimised, but will never attend the level of concerted efforts between state owned enterprises and private companies the Chinese engagement in Africa is based upon.

In most African countries, the new Chinese engagement is highly appreciated, especially at political level. It counters the perceived “post-colonial hegemony” of the West and gives additional room for manoeuvre in negotiations with donors. Large infrastructure projects, constructed by Chinese companies in very short time and financed by Chinese loans at cheap conditions, are highly welcome, especially in post-conflict countries. China’s support is known to be realised fast – it does not involve tedious negotiations with a high number of conditionalities attached. China’s philosophy of support with “no strings attached” except the “One China principle” and its tied aid is preferred to support from the West involving the whole governance agenda.

3. Transparency, governance and standards: How China tackles international regulations

Chinese companies are quite often accused of violating social and environmental standards. Mining accidents in Zambia led to protest and demonstrations against Chinese companies and their government. It is often reported that workers in Chinese factories suffer from systematic violations of workers’ rights. As far as the export of timber to China is concerned, there is evidence that national regulations and international standards are flouted. Very recently, the Chinese government has issued guidelines for Chinese enterprises engaged in logging overseas, following accusations that it is plundering the world’s forests to meet booming demand for wood in China. The guidelines aim to encourage forestry cultivation that highlights sustainability and biodiversity and are meant as a basis for the evaluation and supervision of logging companies. Whether this will become an effective instrument is not yet clear.

This example shows that the government of China is sensible to international advocacy and lobbying. Given its ambitions to become a global player recognised at international level, it cannot ignore critique from international media and NGOs any more. This opens opportunities for progress in other fields as well, as for example China recognising the EITI principles as well as other international social and ecological standards in the future.

China has signed the Paris Declaration on Aid Effectiveness but does not yet keep to its standards. 70% of China’s ODA is tied. China does not yet publish data on its ODA and export credits. It usually acts independently of other donors and does not “harmonise” at all. It is quite evident that China combines economic interests with its ODA, mainly concerning access to raw materials and markets. The newly established Development Cooperation Forum (DCF) at the level of UN ECOSOC might offer better opportunities to get China involved in global initiatives for coordinated support to development.

The volume of loans disbursed by Chinese banks to governments in Africa raises other questions. Does China respect the debt sustainability framework (DSF) and other financial sector standards? There is not much transparency regarding the volume and the conditions of Chi-
Chinese credits to African governments. Therefore, it is very difficult to assess their possible impacts on the economy and debt sustainability. It is assumed that Chinese banks and construction companies do systematically undercut the interest rates and benefit ratios of other international banks and companies as they have access to preferential loans financed by the Chinese government – this might result in the long run in a monopoly for Chinese banks and companies on the African continent.

Recent studies on the impact of Chinese loans on the debt sustainability of African governments show that China’s loan conditions are relatively soft. Therefore, up to today, China’s loans do not seriously question the common debt sustainability framework developed by the IFIs. First because the most important loan recipients are resource rich countries that do not belong to the HIPC group. Second because China’s greenfield investments contribute to widen the fiscal space of the recipient governments.

4. Immigration of Chinese people into Africa: A new colonisation?

It is assumed that approx. 1 million Chinese live in Africa today. Public construction works executed by Chinese companies, be it under contract with the host country or financed by Chinese ODA, are mainly undertaken with Chinese workers. Many of them stay in their host countries after ending their contracts and move into the entrepreneurial and commercial formal and informal sector. Certainly, Chinese immigrants compete directly with African entrepreneurs and traders. There is evidence that they enter even small markets in remote areas and compete with informal small scale traders.

The African population seems to react with mixed feelings: On the one side, there is wide recognition of the modest living conditions of Chinese people, their ability to deal with African habits and daily life in Africa, their respect vis à vis African people. But they stay apart and do usually not engage in interethnic marriages. Still, Africans say not to detect the arrogance they often scathe concerning white people. On the other side, there is anti-Chinese unrest, protest and demonstrations. Miners in Zambia protest against labour conditions in Chinese mining companies, the leader of the opposition in Zambia proclaimed that he will stop cooperation with China once in power, employees of textile production sites demonstrate against cheap imports from China that make them

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8 The figures in the chart total to 500.000. Asche (2007) estimates 1 million. The Chinese government indicates 78.000 Chinese workers in Africa.
fear lose their jobs, and traders lobby for more effective import and immigration restrictions to bring the new competitors to halt.

What will be the long term impact of this massive inflow of Chinese workers, traders and entrepreneurs? How will it affect the African economy and its performance? Will the positive impacts exceed the negative ones? For the time being, we can only speculate. This issue will need further observation and research.

5. What’s in it for Africa? China’s engagement with Africa and long term development perspectives

The overall estimate is that China so far has played a positive role and has effectively contributed to the economic development in Africa. But how do we assess the medium and long term perspectives of trade relationships and development outcomes between China and Africa? To deepen the analysis, we might have to look into different categories of African countries:

a) Resource rich countries
b) Resource poor countries with few industry and a low degree of manufacturing and processing
c) Resource poor countries with light industries and a higher degree of manufacturing and processing

Category a):
Angola, Cameroon, Republic of Congo, Democratic Republic of Congo, Equatorial Guinea, Sudan, Zambia, etc.

Oil exporting and resource rich countries benefit in two ways: China’s strong and sustained economic growth contributes to a net increase of prices in the global market. Furthermore, the Chinese government as well as state-owned or private companies are investing in the oil and mining sector: Greenfield investments in infrastructure and transport for export as well as the exploration and exploitation of mineral resources do contribute to the extension of the fiscal space of African governments. But these countries risk getting locked in their position as raw material suppliers and not benefiting from effects on the sustained development of other sectors. It is characteristic for extractive industries to be highly capital intense, but having limited effects on the creation of long term employment and sustainable development. Solely if the gains from extractive industries are carefully managed and used for productive purposes, the development potential derived from the exploitation of raw materials is fully utilised. This includes, apart from infrastructure investments, also factors like the encouragement of foreign direct investment and the development of the private sector. Therefore, the governance agenda, especially in terms of the use of resources derived from extractive industries, but also concerning the allocation of mining concessions and the regulations applied to their exploitation, remains important. The phenomenon of the resource curse is well known in Africa. The countries that benefit today from a rapid increase of world market prices for petrol and other raw materials, need to prepare their future economies and strategically invest in diversifying them. China might manifest its adherence to the principles of long term development in Africa by joining the EITI initiative and subscribing to its rules – at least if there is strong ownership for EITI principles, as is the case in Nigeria, for example. This would, however, contradict with China’s principle of non-interference in sovereign affairs of its partners.

Category b):
Benin, Burkina Faso, Ethiopia, Mali, Mauritania, Mozambique, Senegal, etc.

In tendency, these countries are net importers in their trade relationships with China. The goods they export to China are restricted to cotton, cocoa, tobacco and other agricultural products. They do not possess broad manufacturing and processing industries. Therefore,
they usually appreciate the import of cheap manufactured products from China making these goods accessible for a large part of the population. But in the long term, this trade relationship limits their development perspectives to agricultural production. Given the tendency to wealth accumulation in China and the emergence of a middle class, we can assume that the export share of agricultural products from Africa to China will continue to rise. This will at least provide a basis for the further development and investment in agricultural production in these countries. In the long run, other development opportunities might appear, especially in the fields of food processing and light industries.

Category c):
Algeria, Ghana, Ivory Coast, Kenya, Morocco, Nigeria, Republic of South Africa, Tunisia, etc.

China’s expanding export of manufactured goods to Africa is competing with domestic production in Africa. Especially in countries where light industries exist, cheap imported goods from China can destroy the African production. At least some of these countries, like for example the Republic of South Africa, are in direct competition with China. They possess light industries with similar products as China. Competition is additionally hard because Chinese exporters are often state-owned and subsidised. With regard to the bilateral trade between China and these countries, they seem to loose out. Their balance of trade with China tends to be negative and this tendency seems to accelerate. The textile industry in particular has received much attention in recent years. The case of South Africa has illustrated how difficult it might be to adapt the national economies to the upcoming competitor.

What concerns China’s impact on pro poor growth and the welfare of African societies, the picture is not yet very clear. Given the fact that China is not pursuing a governance agenda, the assumption is that pro poor impacts will differ according to the existing governance structures of African states.

6. Trade agreements: A window of opportunity for Africa?

It is evident that China follows a clear political and economic strategy with regard to Africa. But has Africa developed a China policy? How can African countries assure to benefit from the expanding relations with China not only in the short, but also in the long run? What options do they have? What is their room for manoeuvre?

“China’s growing role in Africa is not transitory. As China-Africa economic relations are increasingly based on trade and investment, and trade is based on more than just commodities, the relationship is likely to expand, along with economic growth in China and Africa. Economic relations are increasingly dominated by commercial ties rather than by aid considerations” (Wang 2007: 22). The private sector, rather than government ministries, is increasingly the engine of economic exchange between China and Africa. This underscores the importance of improving the investment climate and strengthening the regulatory framework to achieve win-win outcomes. It further points to the importance of trade relationships and trade agreements.

A short analysis of the economic impact on Africa of the Africa Growth and Opportunity Act (AGOA) put in place by the USA and the General System of Preferences (GSP) as well as the Everything But Arms-Initiative (EBA) implemented by the EU shows that preferential trade agreements have a high potential to boost Africa’s economy. The Multi-Fibre Arrangement (MFA) and AGOA set incentives to Chinese textile companies to invest in production facilities in Africa. A number of African countries thus profited from Chinese and Taiwanese investment integrating Africa in global production chains and increasing its export volume to

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9 See charts 13 and 14 (annex).
10 See box in chapter 2.
the US and the EU. The MFA has been eliminated in 2005. This erosion of preferential treatment had an immediate impact on the volume of Africa’s export of textiles. Production sites owned by Chinese and Taiwanese companies were shut down, small countries like Lesotho were hit especially hard.

The potential effect of the more recent AGOA and EBA has been limited by additional rules of origin, local sourcing and double stage processing requirements. The intention was to avoid that African countries just serve as a trading platform without benefiting from further processing and investment. But Africa is not yet in the position to deliver all the goods necessary for the complete production cycle. The permission accorded by AGOA to use preliminary products from other regions (third country fabric provision), China as well, keeps further processing in Africa alive.\textsuperscript{11} It was supposed to end in September 2007, but has been extended to 2012.\textsuperscript{12} Similar initiatives of the EU, like GSP and EBA have so far not proofed to be as effective. According to recent reports\textsuperscript{13} this is due to the double stage processing requirements that do not operate with exceptions like AGOA.

Thus, negotiating for softer conditions and more effective regulations becomes one of the most important topics for African governments. The opportunities offered by the ongoing EPA negotiations between the EU and the different regions of Africa must be seized. This does not only concern manufactured goods, but agricultural products as well.

7. Conclusion: China and private sector development in Africa

China’s involvement in Africa offers many opportunities, but as well many challenges to African states and its governments. China certainly contributes substantially to accelerating growth rates in Africa. Its focus of engagement is shifting from classical ODA to direct investment and trade. The main challenge that African governments will have to face is to develop policies and regulations that guarantee sustainable economic and social development. The policy options at hand imply:

- Bi- and multilateral trade agreements that foster broad based economic development and further processing of Africa’s raw materials including agricultural products,

- Active support to local manufacturers and industries to fully benefit from preferential access to markets in other parts of the world and to adapt to global quality standards and to competition on the world market,

- The development and effective enforcement of governance standards boosting the development of the private sector and attracting further competitive foreign direct investment.

Massive immigration of Chinese people into Africa who engage even in the small scale enterprise sector might have a long-lasting impact on the African national economies and their integration into the world market. Increased competition on the local markets might result in improving the quality of goods and services. Through their global networks, Chinese entrepreneurs might contribute to a better integration of Africa’s economies into the world market.

In conclusion, it seems that many opportunities for a further development of the private sector in Africa exist today. It is mainly given to the governments of African states and its decision makers to make sure that Africa will fully benefit from this move.

\textsuperscript{11} See Kaplinsky, 2007 for further information.
\textsuperscript{12} See \url{http://www.agoa.gov/agoa_legislation/agoa_legislation4.html}
\textsuperscript{13} See Goldstein et al. 2006: 130-132, Kaplinsky et al 2006 passim.
Literature

Annex


Chart 6. Trade relations between China and Africa, 1998-2005 (in m. US$)

Source: Data from International Monetary Fund (2006), Direction of Trade Statistics, Yearbook 2006: 133.
Chart 7. Most important trade relations between China and Africa in the year 2005


Chart 8. Africa’s Terms of Trade with China, 2000-06 (Index, 2000 = 100)

Sources: Author’s estimates based on data from Uncomtrade; IMF, World Economic Outlook and International Financial Statistics.
Note: See Annex II for details of calculations and assumptions.


Chart 9. Composition of Africa’s exports to China in the year 2004

Chart 10: Composition of Africa’s imports from China in the year 2004

- Textile and yarn: 18%
- Clothing: 11%
- Mechanic and electric products: 41%
- Hightech products: 8%
- Iron and steel: 5%
- Footwear: 5%
- Others: 12%


Chart 13. China’s agricultural trade with Africa as % of total Chinese agricultural trade


Chart 14. Agricultural trade from Africa to China (US$ Billion)