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Chinese Infrastructure Investments and African Integration

Richard Schiere and Alex Rugamba



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Chinese Infrastructure Investments and African Integration

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Abstract

This paper goes beyond the standard approach of only highlighting Chinese infrastructure investment and its impact on African integration by discussing how African countries can work closely together on common policy issues. More specifically, this paper argues for the establishment of a core group of African countries within the China-Africa Cooperation Forum (FOCAC) to promote regional integration. In the short term, this core group of African countries would pursue initiatives which are relatively

easy to achieve, such as improving access to the Chinese market and advancing regional infrastructure projects. In the long term, this group could focus on more challenging tasks such as establishing a coordinated approach to debt relief and untying of development assistance. The core group of Africa countries would thus strengthen FOCAC implementation, thereby deepening China-Africa relationships and creating win-win situations for all stakeholders.

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1. Introduction

Regional integration in Africa is important in a globalized world for African countries to reap benefits from economies of scale and to strengthen their position in international negotiations. Yet, this process has been hampered by overlapping mandates and memberships from various regional organizations. At the same time, the rise of China as a global economic power has created additional opportunities and challenges for African integration. On the one hand, Chinese investment in infrastructure is alleviating major supply side bottlenecks for further integration. On the other hand, the bilateral approach of China with individual African countries limits the possibility of addressing regional issues.

This paper discusses the establishment of a core group of African countries within the China-Africa Cooperation Forum (FOCAC) to promote regional integration. In the short term, this core group of African countries would pursue initiatives which are relatively easy to achieve, such as improving access to the Chinese market and advancing regional infrastructure projects. In the long term, this group could focus on more challenging tasks such as establishing a coordinated approach to debt relief and untying of development assistance. The core group of Africa countries would thus strengthen FOCAC implementation, thereby deepening China-Africa relationships and creating win-win situations for all stakeholders.

The outline of the paper is the following: The first section highlights the challenges of African integration as well as the structural issues (such as high transportation costs and a weak regulatory environment) that must be overcome if the continent is to seize the opportunities provided by a globalized world. The second section describes inefficiencies due to the overlapping mandates and membership of various regional organizations in Africa. The third section discusses the growth of Chinese trade disaggregated by regional groupings. The fourth section highlights how infrastructure investments support intra-African trade and alleviate bottlenecks for African integration. The fifth section underlines the importance of deepening African collaboration within FOCAC and argues for the establishment of a core group of African countries in the forum. The conclusion highlights the most important recommendations.

2. African Integration and Structural Challenges

Although historically African integration has enjoyed strong political support, implementation has been hampered by individual countries' desire to protect their national sovereignty (Kühnhardt, 2008), as well as by regional agreements that provide preferential market access to developed country markets, such as through the African, Caribbean and Pacific (ACP) Group of States. Although bilateral trade treaties with European and North American countries provided access to large markets, duty free access was often limited to primary commodities, while exports of higher value added industrial products were discouraged through tariffs. This tariff structure limited spillovers and "learning by doing", thus leaving African countries "trapped" in producing commodities manufacturing, as predicted by "center-periphery" dependency theory (Cramer, 1999, Liu, 2007).

In contrast to African countries, the first group of Asian tigers (i.e. Japan, South Korea and Chinese Taiwan) have achieved high economic growth rates and dramatically reduced poverty since the 1970s by pursuing export-oriented development strategies (Hiratsuka, 2005). The success of the Asian tigers underlined the importance of promoting private sector development and competitiveness in export markets (Schiere, 2010), thus encouraging the expansion and deepening of various regional trading blocks, including the European Economic Community, the North America Free Trade Agreement (NAFTA) and the ASEAN-China Free Trade Area (ACFTA). More recently, lack of progress in the multilateral trade negotiations has further increased emphasis on regional trade blocks. The failure to conclude the Doha Development Round (WTO, 2001), originally scheduled for the end of 2005, is particularly important for Africa, as the market access provisions under this agreement could lead to substantial increases and greater diversification of the continent's exports.

The lack of progress in multilateral trade negotiations also has encouraged the growth of non-reciprocal free trade agreements, such as the American Growth and Opportunity Act (AGOA) and the European Union's Everything But Arms agreement. The European Union also has a reciprocal trade agreement with African countries under the Economic Partnership Agreements (EPAs), the successor of the Lomé accord. The implementation of the EPAs is still being negotiated by several African countries and it will be gradually phased-in over a 12 year period (Olumuyiwa, 2006). These agreements provide poor exporting countries with temporary price advantages, to help them

develop their new export industries. Ideally, over time these exports would become sufficiently competitive to survive without preferential terms. The non-reciprocal free trade agreements could help promote sustained export-led growth, if accompanied by the establishment of an appropriate enabling environment. In some African countries, these agreements have encouraged investment in export industries. For example, in Lesotho access to the US and European markets lead to Chinese textile investments and thereby increased job opportunities, although the sustainability of these investments is uncertain if the preferential access were limited or abolished.

In many African countries, the positive impact of preferential trade agreements has been limited by structural challenges, including high transportation costs and institutional weaknesses. Thus access to export markets does not necessarily lead to higher economic growth rates and poverty reduction in Africa. Landlocked countries in particular tend to have higher transport costs and weaker business environments than coastal countries (see figures 1 & 2). Given the overall reduction in global transport costs over the last few decades (Yang and Gupta 2005), these high costs seriously undermine African countries’ ability to compete, for example with Asia. And landlocked countries are particularly disadvantaged: it costs \$1,500 to transport a container from Japan to Abidjan (UNECA, 2004), while the average cost for container transport to landlocked countries in Africa is \$3,000.

Figure 1: Average transports cost per container

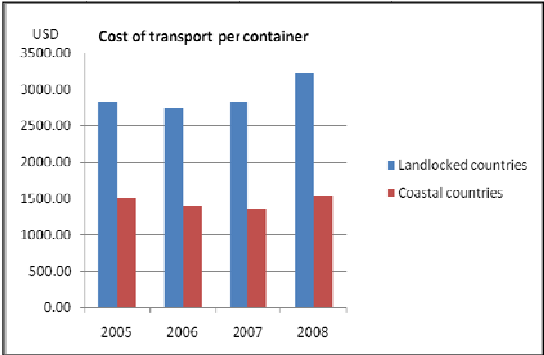
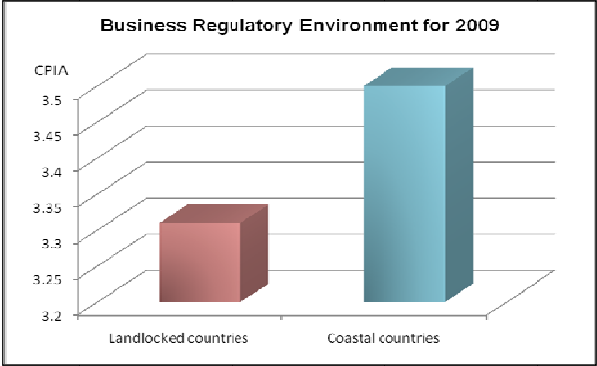


Figure 2: Business regulatory environment



Source: African Development Bank Group

The high costs of transport are driven by both the lack of adequate physical infrastructure (i.e. poor roads, slow port operations and poor storage facilities, etc), and institutional weaknesses such as unnecessary bureaucracy, slow customs procedures, transport cartels, and corruption (World Bank,

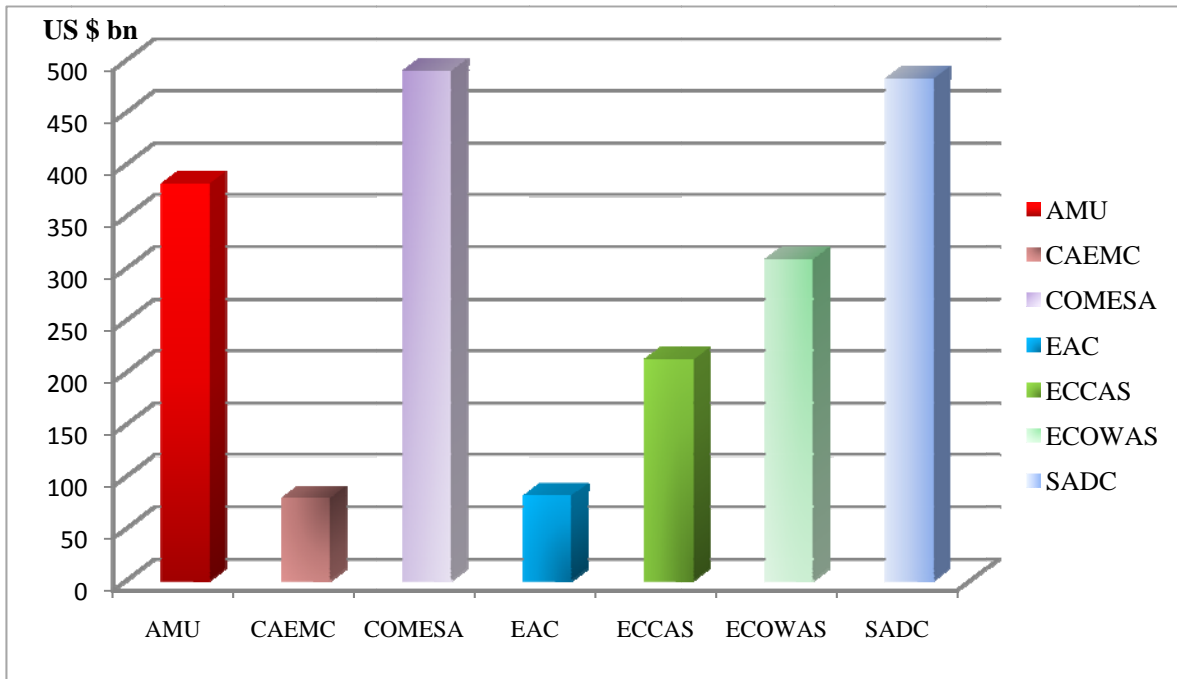
2001 and WTO 2005). These weaknesses must be addressed to ensure that Africa can benefit from preferential market access. Another challenge, at least on the import side, is that customs revenues are often a main source of government revenues; thus internal revenue sources (VAT, income tax, profit tax, etc.) should be strengthened before tariffs are reduced. Eliminating import prohibitions, for example those that Nigeria maintains on some products from ECOWAS Member States (Olumuyiwa, 2006) and addressing logistical and regulatory barriers could facilitate trade without reducing customs revenues (World Bank, 2005).

3. The multitude of African organizations

Africa has numerous sub-regional organizations with various mandates for promoting deeper integration, for example facilitating trade flows and reducing the costs of circulation of individuals (e.g. issuing a common passport).³ These organizations include the African Economic Community (AEC), Arab Maghreb Union (AMU, headquartered in Rabat), Central African Economic and Monetary Community (CEMAC, headquartered in Libreville), Common Market for East and Southern Africa (COMESA, headquartered in Lusaka), the East African Community (EAC, headquartered in Arusha), the Economic Community of West African States (ECOWAS, headquartered in Abuja), the Economic Community of Central African States (ECCAS, headquartered in Libreville) and the Southern African Development Community (SADC, headquartered in Botswana). In general, these regional organizations pursue their own mandates; there is a lack of an overarching pan-African integration initiative, although the African Union is encouraging some coherency. Note that even achieving full African integration would still leave a relatively small market in global terms (see figure 3) —Africa's GDP (nominal in 2009) is only about \$1.18 trillion, compared to \$16.4 trillion for the European Union, \$14.2 trillion for the United States, and \$4.9 trillion for China.

³ There are also African organizations that deal with peace and security issues, however, in this paper focuses mainly on trade and investment integration among African countries.

Figure 3: GDP of regional organizations in 2008



Source: African Development Bank Group

One key impediment to coordination across regional organizations is that several African countries are members of more than one. Of the 53 African countries, 26 are members of two regional economic communities, and 20 are members of three regional groups. Only 6 countries maintain membership in just one regional economic community (UNECA, 2004). This overlap wastes scarce administrative and financial resources and complicates the negotiation of bilateral trade treaties with the European Union and the United States. This is particularly a challenge for African regional groups which include both Least Developed Countries (LDCs) and non-LDCs, as the latter are involved in reciprocal trade negotiations, while the former receive access through non-reciprocal trade negotiations. These tensions were evident in the EPA negotiations. Several members of the Southern African Development Community (SADC) signed temporary EPA agreements with the EU, while South Africa could not reach an agreement with the EU due to requests for additional safeguard provisions to protect key manufacturing sectors, which other SADC countries lack (Mbatha & Charalambides, 2008). These tensions among SADC members could have serious repercussions for the regional organization.

The proliferation of regional organizations also affects African integration. On the one hand, it can be easier to achieve trade integration agreements within small regional organizations than within

large blocs. Trade integration can have strong distributive effects (Verdier 2005, Hoekman 2005); domestic constituencies that lose from lower tariffs are likely to organize to oppose reform, while potential beneficiaries are often difficult to identify and organize. Managing the complicated political economy of trade reform is easier if the number of parties to the agreement is limited. On the other hand, various small organizations can become a stumbling block to African integration, as each regional organization seeks to achieve its members' interests at the expense of promoting trade liberalization at the continental level.

4. African trade within regions and with China

The relative small market size of regional trade groupings contributes to the limited amount of intra-African trade, which has not significantly increased within nearly all regional groups in the last decade (see figure 4).

The Arab Maghreb Union has the highest intra-African trade among regional groups, although this trade fell from 26 percent of the countries' trade in 2003 to 20 percent in 2008. Intra-Africa trade will likely continue to decline with the deepening of the European Union Neighborhood Policy and the Mediterranean Union (European Commission, 2004).⁴ Other regional groupings' intra-African trade equalled from 4 to 13 percent of their total trade from 1998 to 2008. By contrast, China's share of each regional groups' trade increased steadily from 1998 to 2008, most notably for the Economic Community of Central African States (ECCAS), where trade with China in 2008 reached 25% of total trade (see figure 5). Expanding trade with China was led by the strong rise in commodity exports from three ECCAS members (Angola, Republic of Congo and Cameroon). Data for the other regional organizations show a steady growth of overall trade with China, largely dominated by commodity exports.

⁴ The European Neighborhood Policy Strategic Paper deals with a wide range of issues including human rights and migration. This policy also highlights the need for infrastructure investment to transport energy to Europe from North African and therefore will increase European-North African trade.

Figure 4 : Share of intra-African trade by regional organization

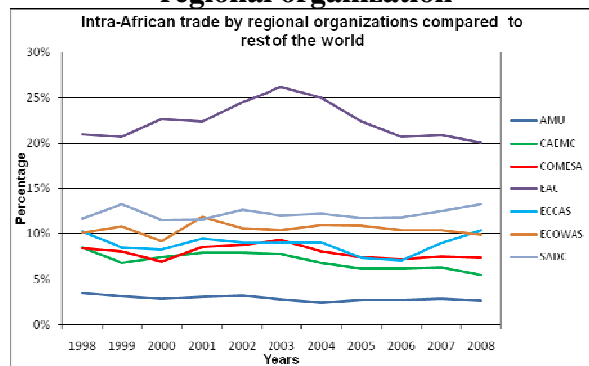
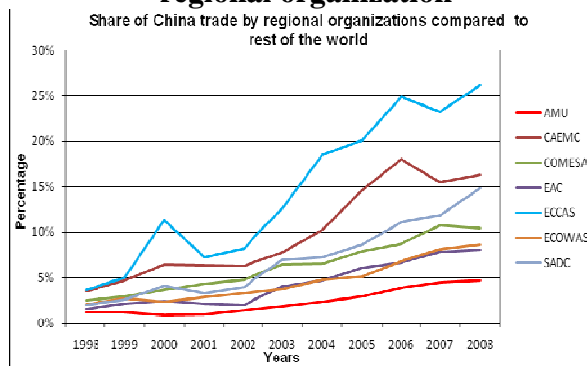


Figure 5 : Share of China trade by regional organization



Source: IMF trade statistics & SADC trade statistics

But for Africa to reap substantial benefits from trade integration will require addressing structural challenges, such as improving trade facilitation, establishing an appropriate environment for private sector development (e.g. reducing impediments to opening a business), and improving the skills of the labour force. Such improvements would enhance intra-African trade, as well as attract foreign investors. Strengthening domestic institutions in the context of an outward-oriented development strategy would win cooperation from development partners and thus further market access. By contrast, pursuing a closed development strategy by creating an African customs zone with high external tariffs would boost trade diversion and reduce consumer welfare owing to high prices, as production costs within Africa for many essential manufactures are higher than in the rest of the world.

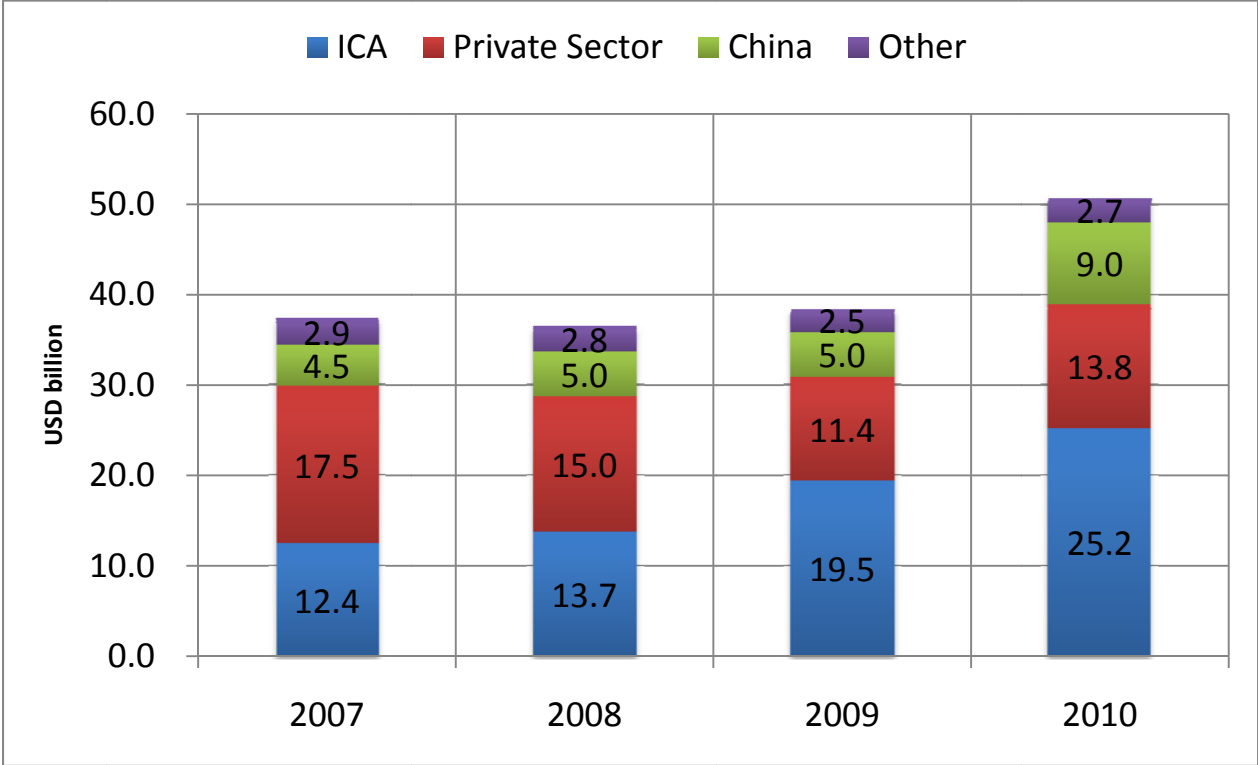
5. The impact of Chinese infrastructure investment in Africa

Investment in infrastructure, including in transportation (e.g. roads and rails), power generation, and telecommunications (e.g. Internet) is essential to alleviate supply-side impediments to African integration. The small population and market size of the majority of African countries limits opportunities for economies of scale and increases border stop-related transportation costs, so that regional cooperation can contribute to reduced trade transactions costs. The 12th African Union (AU) summit held in February 2009 identified infrastructure development, cheap energy and regional transport networks as priorities (African Union, 2009)⁵.

⁵ The theme of the Summit was “*Infrastructure Development in Africa, with emphasis on Transport, Energy and Investment*”.

The Africa Infrastructure Country Diagnostic (AICD) estimates that an additional \$93 billion in annual spending over the next 10 years is required to meet the Millennium Development Goals (MDG) and achieve national development targets in Africa (IBRD/World Bank, 2010). Almost half of this amount is needed to address the continent’s current power supply crisis that is hindering Africa’s growth potential. It is estimated that the increase in power supply could add 2% of GDP per year and raise business productivity by 40%.

Figure 6: External support to the infrastructure sector (2007-2010)⁶



Source: ICA 2011

In 2010 total commitments for African infrastructure projects were \$50.7 billion – increasing significantly from previous year level by 32% (\$38.4 billion) in 2009 (see figure 6). Commitments made by ICA members in 2010 were \$25.2 billion, half of the total volume and increasing by 29.3% (\$5.7 billion) from 2009.

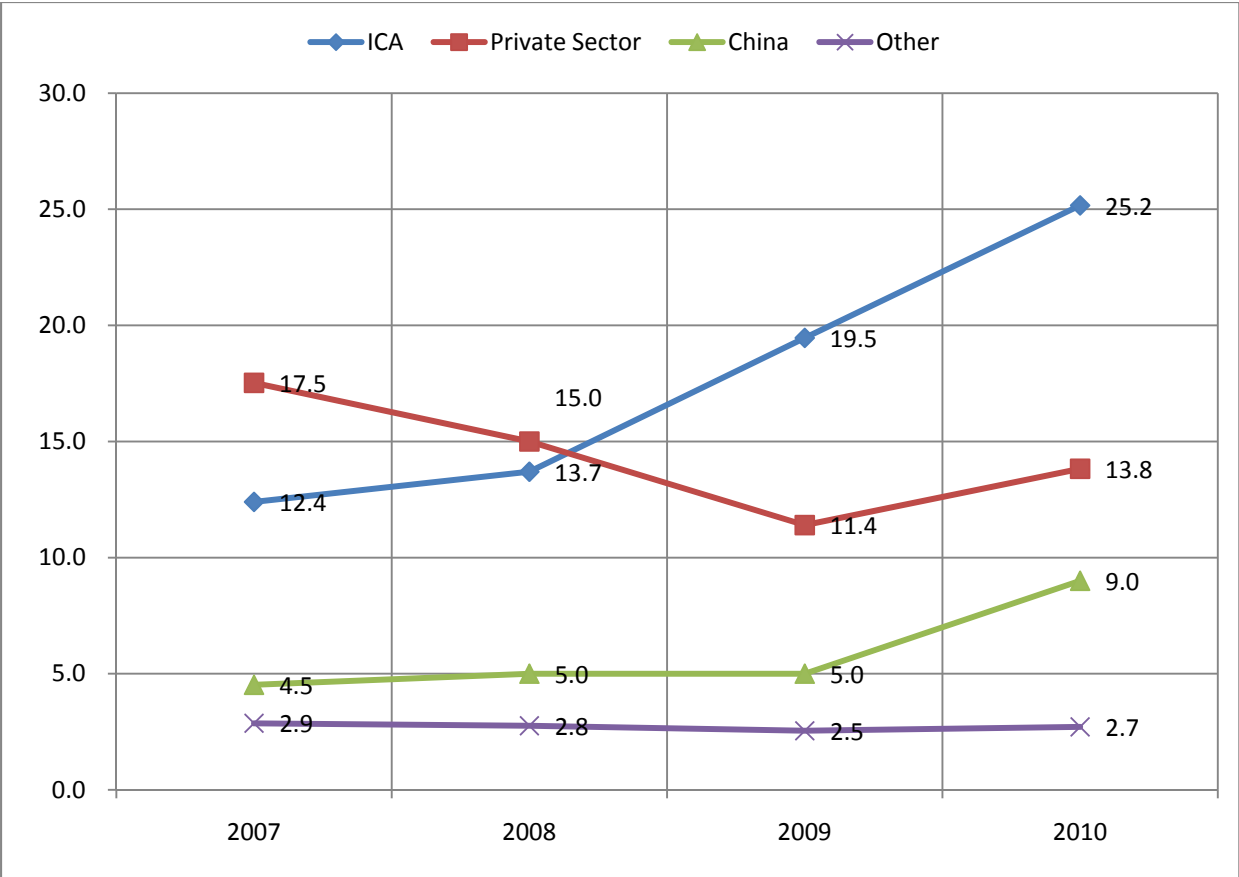
After the dip of private sector support in 2009—caused by the financial crisis, private commitments increased to \$13.8 billion in 2010. Typically 90% of private support is allocated to ICT funding.

⁶ Preliminary results, subject to further responses to ICA Annual Report 2010 questionnaire from several members.

Examples of private sector infrastructure investment include the Dakar Container Terminal and the Main One Cable system. The latter would increase Internet access at lower cost to West Africa.

Commitments from Other⁷ donors such as India, Arab Funds and African Regional Development Banks remained on a stable level of \$2.7 billion in 2010.

Figure 7: Trend of external support to the African infrastructure sector (2007-2010)⁸



Source: ICA 2011

China’s investment in African infrastructure remained also stable at around \$ 5 billion per year in the period from 2005 to 2009. Investments from China to Africa do not appear to have declined due to the international financial crisis. This is in part because of the limited impact of the crisis on the financial sector in China as well as the country’s \$2 trillion in foreign currency reserves, but

⁷ Other donors include: India, Arab Donors (IsDB, Abu Dhabi Fund, Saudi Fund, Arab Fund for Econ. and Soc. Dev., BADEA, Kuwait Fund for Econ. and Soc. Dev., OPEC Fund for Int. Dev.); African Regional Development Banks (BIDC, BOAD, BDEAC, etc.). DBSA included in the ICA member figure.

⁸ Preliminary results, subject to further responses to ICA Annual Report 2010 questionnaire from several members.

mostly because Chinese investments are intended as a long-term commitment. For 2010 the ICA estimates a significant step-up of Chinese investments in African infrastructure by 80% to \$ 9 billion (see figure 7). Chinese activities are totalling at \$ 15.9 billion⁹ according to ten articles published throughout 2010 by Reuters Africa. The biggest commitment of \$ 9.87 billion was made to Ghana through the China Exim Bank for “road, railway and dam works”¹⁰ and “to finance Ghana's oil and gas infrastructure and agricultural development”¹¹ with \$ 3 billion through the China Development Bank.

Chinese investment can make an important contribution to improving African infrastructure. Recent examples are roads and bridges in Democratic Republic of Congo (DRC), railways in Angola, and power stations in Zambia. Chinese investments are often structured around oil and mineral resources, including in fragile states (Box 1). China is building high-voltage power transmission lines to interconnect countries in Southern Africa, thereby strengthening African integration. In the rail sector China’s largest deals include the construction of mass transit systems as in Nigeria, and the construction of new lines linked to mining developments in Gabon and Mauritania. The largest ICT project with Chinese involvement comprises the rollout of a national communications network in Ethiopia.

Chinese investment is beneficial to Africa also through competitive pricing, as shown by China’s receiving 21% of the AfDB’s total procurement contracts and 35% of its civil engineering projects in 2008. China’s comparative advantage is particularly evident in hydropower project construction. By the end of 2007 China had committed at least \$3.3 billion towards 10 major hydropower projects (World Bank and PPIAF, 2008). Once completed, these projects will provide a combined generating capacity of more than 6,000 megawatts.

⁹ Preliminary ICA estimation: based on web research and compilation of “Chinese project list: Commitments to infrastructure in Africa in 2010” (Annex)

¹⁰ Reuters Africa, Helen Nyambura-Mwaura: IMF says Ghana's \$13 bln Chinese loan 'good' 25 Oct 2010; link: <http://af.reuters.com/article/investingNews/idAFJOE69O07120101025?pageNumber=1&virtualBrandChannel=0>

¹¹ *ibid.*

Box 1: China's engagement in Mozambique

Unlike its activities in other African countries, China's engagement with Mozambique can be characterized as being guided by caution and compromise. Maputo's established relationship with traditional donors and their presence in the country (foreign aid from traditional donors financed 51% of the 2008 national budget of \$3.2 billion), the relatively strong Western NGO presence and concomitant fostering of a local civil society, and the proven ability of FRELIMO (the governing party since independence) to manage an array of external actors makes Beijing's and the Mozambican government's bilateral relations very different from China's ties with other resource-rich countries. Thus China's approach in Mozambique, while as usual emphasizing resources and infrastructure, nonetheless has been far less significant than in Beijing's aspirations.

China has funded several public infrastructure projects in Mozambique since 1999, beginning with the construction of the parliament buildings. From 2001-04 concessional loans amounting to \$15.6 million (to be repaid between 2013 and 2025) financed several public works projects, including construction of the Joaquim Chissano Conference Centre, the new Foreign Ministry, and low income housing in Zimpeto in the outskirts of Maputo, as well as the purchase of police equipment. A new national stadium is also being built by the Chinese ahead of the 2010 FIFA World Cup held in South Africa. A third of all road construction, amounting to 600km of roads, in Mozambique is being carried out by Chinese road contractors. Chinese construction companies are also involved in rehabilitating urban water supply systems in Maputo (\$30 million), and Beira and Quelimane (\$25 million in total), through international tender procedures, and are looking at further tender opportunities in the road and bridge construction sectors.

The Ministry of Public Works and Housing is finalizing details with China's Exim Bank on the construction of a \$300 million hydro-electric dam in Maputo that will supply both water and electricity. The Moamba Major dam will provide the city with crucial infrastructure, destroyed during the civil war, which will extend drinking water to 60% of the population by 2015 and will also decrease Maputo's reliance of Cahora Bassa dam for its power supply. Exim Bank is set to become the largest financier of Mozambique's biggest infrastructure project, the construction of the Mpanda Nkua dam, worth \$2.3 billion, and a 1.5 Megawatt hydro-electric plant. Chinese construction companies are normally awarded projects financed by Chinese funds, but in this case the construction of the dam has been awarded to Camargo Correia, a Brazilian engineering company, and to their Mozambican partner group Insitec.

Source: Chris Alden, SAIIA.

One of the key challenges in analyzing China's infrastructure investment in Africa is that Chinese investments are fragmented across several government institutions, including the China Development Bank, China EXIM Bank, and the Ministry of Commerce. In addition, the China-Africa Development Fund (CADF) is supporting business partnerships between Chinese and African entrepreneurs, and has participated in 20 projects and invested over \$500 million of its own resources while promoting investment of more than \$20 billion by Chinese companies

(Business Day, 2009), including Sinosteel Corporation, China National Building Material, and Hainan Airlines. China has also acquired African banks, which could extend financial services, such as trade finance, to Chinese companies. The most prominent example is the acquisition of 20 percent of South Africa's Standard Bank for \$5.6 billion by the Industrial and Commercial Bank of China, China's largest lending institution (Centre for Chinese Studies, 2007). Other Chinese banks that are active in Africa include the China Construction Bank, which has entered into a strategic partnership with FirstRand of South Africa. However, benefiting from Chinese acquisitions will require addressing key structural challenges for the banking sector in African, including the lack of property rights, slow bankruptcy procedures and weak rule of law.

China's engagement, based on developing win-win outcomes within the framework of south-south cooperation, has provided very substantial resources for critically-needed infrastructure. China's assistance to Africa has changed from grants and soft loans to commercial loans at competitive rates for projects viewed as financially viable, which has raised concerns that Chinese involvement could impair debt sustainability. The most well publicized example is the case of the DRC, which had to amend the terms of its Chinese assistance package to qualify for completion of its \$6.3 billion HIPC debt relief. To ensure that Chinese investments have a positive impact, African governments need to establish an adequate regulatory framework to ensure transparency in decision-making and the implementation of environmental and social safeguard policies, to encourage the transfer of skills and technology, and to require foreign investors to use local labour and construction materials. These regulations should be applied to all investors, whether from China or traditional development partners.

Maximizing the development impact of China's investments will also require coordination with other investors and development partners, through, for example, co-financing projects. For example, Botswana will receive a loan of \$225 million from the African Development Bank Group to finance the Morupule B Power Project, which involves the construction of a 600 MW coal-fired power plant and associated transmission infrastructure, with the goal of achieving energy self-sufficiency. The project is to be co-financed by the World Bank, plus \$825 million from the Industrial and Commercial Bank of China and Standard Bank Consortium (ICBC-SB).

Chinese investments have mainly supported infrastructure projects through direct bilateral relationships with individual African countries. However, China has demonstrated that it can

participate in regional projects so as to benefit from economies of scale. Regional African entities could provide a framework for such projects, including in power generation, power interconnections, roads, ports, railways and ICT networks. One major regional infrastructure venture is the planned construction of electricity transmission lines between South Africa and Mozambique, South Africa and Zambia, and Botswana, Namibia and Zimbabwe. Other positive developments include joint infrastructure programs (with strong trade facilitation components) such as the North-South Corridor, designed to support the Tripartite Arrangement that has been set up between SADC, COMESA, and EAC to create a grand free trade area in East and Southern Africa (Swazi Observer, 2009).

Overall, China's engagement in Africa is positive and will be critical to meet the growing needs of the continent and promote regional economic development. However, it is important for national governments to ensure that China's assistance and investments are aligned to national and regional strategies. Addressing these issues within the FOCAC framework would provide an opportunity to create win-win situations.

6. Strengthening FOCAC Implementation

The increasing importance of economic ties between China and Africa (Sino-African trade exceeded \$100 billion in 2008) lead to the organization of the Ministerial China-Africa Cooperation (FOCAC) forums, which bring together heads of states of China and of 53 individual African countries. The initial FOCAC event was held in Beijing in 2000, and subsequently was organized every three years, in Addis Ababa (2003), Beijing (2006) and Cairo (2009).

China's engagement with Africa is being carried out under the strategic objective of the "Going global strategy" which seeks to create multinational companies, in particular in the infrastructure and extractive (oil, iron ore and timber) sectors. Often these Chinese enterprises thrive in Africa, while Western companies have limited presence due to perceived high business and political risks. By contrast, Africa lacks a strategic vision for engagement with China, despite the considerable development opportunities that China offers.

Experience with other regional economic entities, such as the European Union and the United States, has demonstrated that Africa needs to have a strategic vision to reap the full benefits of economic cooperation. This vision could be elaborated within the FOCAC, the established institutional framework for Sino-African relationships. Regional organizations could have an

observer status, but due to the overlapping mandates and memberships, Sino-Africa engagements might best be dealt with within the existing institutional framework of FOCAC. Establishing a core group of African countries to follow-up on regional issues, including the achievement of greater access to the Chinese market, coordinating regional infrastructure projects, increasing debt relief and reducing the share of development assistance tied to donor suppliers, would strengthen the FOCAC's implementation framework.

This core group of Africa countries could build on the experience of the African Development Bank Group, which created a network among 10 African countries, or C-10, to negotiate a common position for Africa during the global economic and financial crisis. The C-10 has representation from ten different African entities, including representatives from five government ministries (Tanzania, South Africa, Nigeria, Cameroon and Egypt) and five central banks (Algeria, Kenya, Botswana, Central Banks of West African States and Central Banks of Central African states). The C-10 held regular meetings to discuss the evolution of the financial crisis and measures to strengthen the "African voice" on reforming the global financial architecture, such as the Bretton Woods Institutions as well as banking regulatory standards. In this process the C-10 assisted in negotiating a common African position, which subsequently fed into the G-20 negotiations.

Building on the experience of the C-10, the possible members of the core group of African countries within FOCAC could include states that export raw commodities to China (e.g. Sudan, Angola, Democratic Republic of Congo, etc.) as well as countries which import manufacturing goods from China (e.g. Nigeria, Egypt, South Africa, etc.).¹² This group could focus on the following issues in the context of the FOCAC:

1. **Improving market access to the Chinese market.** This initiative would be in line with the FOCAC statement which announced a "zero-tariff treatment to 95 percent of the products from the least developed African countries having diplomatic relations with China, starting with 60 percent of the products within 2010" (FOCAC, 2009). However, two issues still have to be addressed. First, it is important to address non-tariff barriers. For example,

¹² This group of countries is chosen because 60% of the Chinese exports are to 6 countries: South Africa (19, 92%), Egypt (11,88%), Nigeria (10,18%), Algeria (7,25%), Morocco (5,80%) and Benin (5,28%), while more than 70% of the Chinese imports are from 4 countries: Angola (35,45%), South Africa (18,20%), Sudan (11,47%) and Republic of Congo (7,80%).

eligibility for tariff preferences under China's rules of origin require that 40% of the value added are produced in the exporting African country, which is stricter than requirements by the EU (33%) and AGOA (35%) (Minson, 2008). Secondly, although there is some evidence that China is moving-up the value chain (Cui and Syed, 2007), African countries still have to compete with Asian imports, which are more competitive and also enjoy preferential access to the Chinese markets.

2. **Advocating regional infrastructure projects.** Although Chinese investment projects are highly competitive, the preferred model of engagement is bilateral. The advantage of a bilateral approach is that projects can be approved rapidly and required consultations during implementation are limited. The disadvantage is that regional infrastructure projects are often overlooked, including various trade initiatives in the Eastern and Southern Africa and the North South Corridor. The core group of African countries could emphasize the importance of funding regional infrastructure projects to address one of the major bottlenecks to regional integration. It should be emphasized that China is already funding some regional projects, but that there is a lack of capacity of African institutions to prepare a pipeline of projects that are ready for investment.
3. **Coordinating debt relief.** Although there is an established framework for debt management under HIPC and MDRI, it might be beneficial for China, as a creditor country, to interact with other development partners and multilateral institutions. China's debt relief initiative which, as announced at the 2009 FOCAC meetings, focuses on writing off 168 debts owed by 33 African countries, could be coordinated with multilateral institutions and international lenders. Such cooperation could avoid tensions such as those that arose in the case in the Democratic Republic of Congo. However, any debt sustainability analysis is first and foremost the responsibility of the individual African countries, and, only as part of due diligence, is there a role for multilateral institutions.
4. **Untying of development assistance.** This issue is the most difficult to address, as the objective of Chinese development assistance is not only to support development in the recipient African country, but also to support Chinese companies in their going global

strategy. However, in the long term, untying of development assistance would provide the opportunity for African companies to participate in tender projects, improve their technology and labour force skills through learning by doing, and enhance national ownership. Moreover, participation of local industries is important for sustainability: local companies should have the capacity to maintain infrastructure projects, irrespective if these projects are built by the Chinese or by other development partners.

The first two initiatives (improving access to Chinese markets and advocating regional infrastructure projects) could be addressed by the core group of African countries within the FOCAC framework. However, the two latter initiatives (coordinating of debt relief and untying of development assistance) are politically sensitive and may require a shift in the political economy in China before progress can be made.

7. Conclusion

China can provide an important development opportunity for the continent and can assist African integration by alleviating infrastructure bottlenecks and expanding trade. However, for Africa to thrive in a globalized world will require not only addressing the infrastructure gap, but also improving business regulations and customs procedures, as well as broader reforms to strengthen the rule of law. These reforms are the responsibility of African countries, and are essential to diversifying African exports and to economic growth and poverty reduction on the continent.

One of the drawbacks of China's support to Africa is its bilateral approach with individual African countries, which leads to regional issues not being adequately addressed. In this context, this paper has argued in favour of establishing a core group of African countries within the China-Africa Cooperation Forum (FOCAC) which would advocate issues of common concern. In the short term, this group could focus on improving access to the Chinese market and advocating regional infrastructure projects, while in the long term, this group could emphasize the importance of coordinating debt relief and untying of development assistance. In this manner, the core group of Africa countries would strengthen the FOCAC implementation, thereby deepening China-Africa relationships and creating win-win situations for all stakeholders.

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Annex: Chinese project list: Commitments to infrastructure in Africa in 2010

Project(s)	Beneficiary Region	Beneficiary Country	Funding scheme & Source	Sector	Chinese Commitment (USD million)	Reported in year
Road, railway and dam works	Western Africa	Ghana	China Eximbank	Transport; Energy	9 870	2010
Ghana's oil and gas infrastructure and agricultural development	Western Africa	Ghana	Chinese Development Bank	Energy; Agriculture	3 000	2010
Kafue Gorge Lower power plant	Southern Africa	Zambia	Equity / China Development Bank	Energy	1 000	2010
Abuja to Kaduna railway project	Western Africa	Nigeria	loan / China Eximbank	Transport	500	2010
Yaounde water distribution project including construction of a pipeline from the Sanaga Rive	Central Africa	Cameroon	Soft loan / China Eximbank	Water	743	2011
Cell C	Southern Africa	RSA	China Development Bank	ICT	318	2010
Kpong Water Works	Western Africa	Ghana	concessionary loan	Water	250	2010
Bamako to Segou Highway; Bamako bridge; University in Kabala feasibility study; Fibre optic communications project	Western Africa	Mali	N/A	Transport; ICT	210	2010
Bamako - Segou Road	Western Africa	Mali	N/A	Transport; ICT	33,8	2010
Botswana Power Corporation	Southern Africa	Botswana	China Development Bank	Energy	N/A	2010
TOTAL 2010					15 925	

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