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FOCAC: trade, investments and aid in China-Africa relations

Under the label of South-South cooperation in the era of economic globalization, China has shown great interest in Africa. In 2000, to formalise bilateral engagement, minimise the discourses surrounding China's relations with Africa and to strengthen Sino-African cooperation, Chinese and African leaders have established the Forum on China-Africa Cooperation (FOCAC/中非合作论坛). This was announced as the basis of a strategic partnership in the new millennium between China and Africa. To develop economic cooperation and trade ties is the centrepiece of the setting up of the forum. Since the late 1990s/early 2000 through China's "go out" policy, Sino-African trade has experienced unprecedented growth. From a mere US$ 2 billion in 1999, Sino-African trade has now reached US$ 160 billion, making China a leading trade partner for Africa. China's economic cooperation with Africa is also fuelled by investments and aid.

FOCAC is a continuity of China's central government political agenda towards Africa which seeks to solidify economic, political and diplomatic ties. Since 2000, China's "go out" policy has boosted investments and trade in Africa through Chinese State-Owned Enterprises (SOEs) which operate in the continent. Such an agenda has been heavily structured via ministries (Ministry of Foreign Affairs-MFA and Ministry of Commerce, MOFCOM) and financial institutions (China Exim Bank, China Development Bank and China Africa Development Fund) to boost trade, investments and aid.

The "go global" (走出去) policy has driven Chinese investment overseas in search of new markets. In 2011, trade between China and Africa reached US$ 160 billion (see figure 1) and investments totalled more than US$ 13 billion. China today is a major trading partner with Africa. More than 2,000 Chinese companies (SOEs, joint ventures, private and small and medium sized enterprises) have established business in Africa. FOCAC has played its role to facilitate these business relations.

FOCAC achievements 2000 to 2009

The Forum on China-Africa Cooperation has worked towards the establishment of a new global political and economic order between China and Africa, aiming to enhancing China-Africa economic cooperation. The first FOCAC meeting in 2000 agreed on a three year action plan to boost Sino-African trade and investments; cancelling African countries debts to China; increasing development aid to Africa; and encouraging Chinese companies to invest in Africa.

FOCAC II, the first FOCAC meeting in Africa was held in Addis Ababa-Ethiopia in December 2003. The increasing number of African presidents attending FOCAC II illustrated a rising interest on the African continent in Sino-African relations. FOCAC II was centred on political cooperation and socio-economic development. At the Addis Ababa meeting, Chinese officials made commitments to open China's market to African exporters and apply tariff-exemption to some products exported by African countries to China. To improve bilateral economic cooperation, different Chinese and African ministries (ministry of foreign affairs, ministry of commerce, ministry of international cooperation and ministry of economy) have concluded agreements to encourage preferential market access for products from Africa into China. Trade agreements between African countries and China have been signed. The trade agreements fall into the World Trade Organisation (WTO) framework to harmonise trade policies and participate in trade negotiations for better trading system, economic growth and sustainable development.

For trade in services, namely **tourism**, countries such as Mauritius, Kenya, Seychelles, Zambia, Tunisia, Ethiopia and Zimbabwe have been granted the Approved Destination Status (ADS), allowing Chinese tourists to visit such places. Policies to promote the tourist sector and develop tourism infrastructure and capacity have been developed by Chinese and African tourism officials. As for investments, **agriculture** was one of the most targeted sectors during FOCAC 2003. The Addis Ababa action plan (2004-2006) outlined land and water resource management, agro-infrastructure

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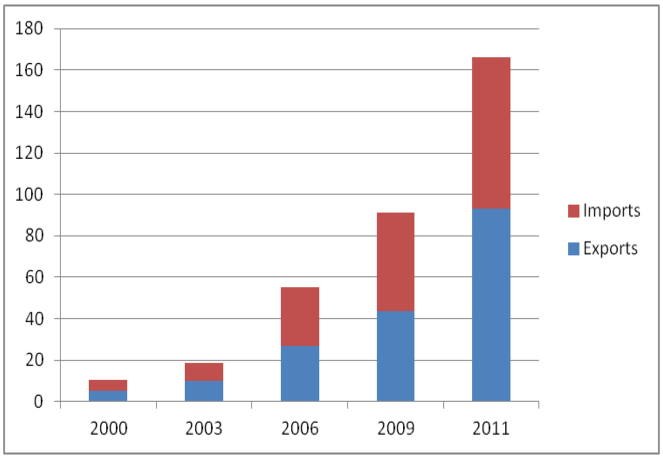
Figure 1: Africa's Exports and Imports Volume with China (in billion $)



Source: China Statistical Yearbook

development, food security, manufacturing of farm machinery; etc. Beijing set up policies to financially support companies through MOFCOM and China Exim Bank to develop agricultural projects in cooperation with African countries. **Infrastructure development** (a bottleneck for Africa's economic growth) was also part of the agenda at the FOCAC II meeting. China has since financed roads and railways building in many African countries, thereby contributing to their social and economic development.

In addition, the creation of joint ventures to **facilitate investment** on both sides has been promoted by African and Chinese officials. The establishment of joint investment by Chinese and African enterprises, and the exchange of experience in business management have been the key factors in China-Africa economic partnership during FOCAC II. Such investment environment should also contribute to job creation, ideally bringing about technology transfer and capacity building. Beyond the Chinese State Owned Enterprises (SOEs) into Africa's business environment that characterise state-to-state engagement, FOCAC II has also considered private and small and medium sized enterprises to operate in Africa and China. It is interesting to note that China's central government is facing challenges in attempts to control the wave of private entrepreneurs avid of success and sometimes driven more by profits than business ethics in Africa. In some of these investments, less has been done for skill transfer or human resource development of Africans. To facilitate business and promote investment cooperation between China and Africa, an agreement was signed at FOCAC II to establish a China-Africa Joint Chamber of Commerce and Industry.

The **Special Economic Zones** established by China in a number of African countries (Nigeria, Mauritius, Egypt, Ethiopia and Zambia) could satisfy these needs but apparently the expected advantages have not yet been achieved. Instead of allowing local entrepreneurs to open businesses in respective countries and to ensure economic promotion, the SEZs mostly welcome Chinese private and small and medium sized enterprises to operate in Africa.

The 2006 FOCAC meeting in Beijing was a watershed moment – at least with regard to public attention. One year after the G8-Gleneagles summit, Chinese officials made declarations and commitments that were ambitious, forming part of a three year action plan which mentioned:

- Doubling aid to Africa to reach about US$ 1 billion by 2009
- Establishing a China-Africa Development Fund(CADFund) to boost Chinese companies' investments in Africa
- Providing US$ 3 billion preferential loans and US$ 2 billion in preferential buyer's credits to African countries
- Cancelling debts for 31 African countries
- Opening China's market for exports to African countries
- Building hospitals and schools in rural areas in Africa

Such aid falls into the scope of China's political diplomacy and is part of Beijing's policy to avoid negative public discourse and build positive reputation in African countries.

Commitments and declarations taken during FOCAC I and FOCAC II about boosting Sino-African trade and investments have yielded satisfactory expectations. From US$ 491.22 million in 2003, China's OFDI stock to Africa has reached US$ 2.5 billion in 2006, thus increasing by 80% (See figure 2 about Chinese FDI stock in Africa). In 2004, the total volume of Sino-African trade amounted to US$ 29.47 billion with China's exports to Africa accounting for US$ 13.82 billion and its imports from Africa accounting for US$ 15.65 billion. Such growth in trade and investments figures has been possible with the policies developed at FOCAC I and II, which have enabled Chinese companies to invest in Africa, to open markets, to facilitate trade between China and Africa. The zero -tariff treatment granted to a number of African countries has also contributed to fuel Africa's exports to China. Furthermore, 2006 coincided with the publication of China's white paper towards Africa that somehow "formalises" China's engagement in Africa.

Through this policy document, promises to improve China's market access for Africa, increase Chinese investments, expand agricultural cooperation and promote infrastructure building (transport, telecommunication, power generation) in Africa were outlined.

FOCAC IV was held in Egypt (Sharm El-Sheikh) in November 2009. Between 2006 and 2009, Sino-African trade has experienced a tremendous growth exceeding US$ 100 billion. Beijing's increase of the zero tax treatment grants to many African countries to export products to China has favoured trade exchanges and contributed to balanced China-Africa trade. Chinese exports to Africa reached US$ 50.8 billion and imports from Africa totalled US$ 56 billion. At the end of Sharm El-Sheikh FOCAC meeting, a declaration to promote open and free trade and investment between China and Africa was adopted. Policies to promote and develop small sized businesses on both sides were undertaken, e.g. the opening of an African commodities trade centre in Yiwu at the world's largest commodities market. As for development assistance, loans have been attributed to African countries for development projects.

Challenges for FOCAC V

China's economic rise and modernisation necessitated resources from abroad in order to secure development at home. China's footprint in Africa's natural resources comes with social and environmental consequences for people's livelihood in Africa. FOCAC V will look more at China's next round of economic, social and political reforms. How will these new implications reshape FOCAC debates?

Economic shift in China will not only affect its relations with Africa but also with the rest of the world. China's breathtaking economic rise with a 9% annual growth rate during recent decades will slow to around 7.5% for the coming years. Although still impressive, the slump will have repercussions for the ability to provide for jobs and income increases through growth only.

China's stated intention to focus more on a consumption-driven, rather than export-driven economy will change its interests in African countries. In 2006, the governor of the People's Bank of China Zhou Xiaochuan stated that China has the financial resources to deal with problems at home. Yet, Chinese officials will feel greater pressure to ensure social development and alleviate inequalities and wealth disparities between people and provinces within China. A rise in social protests related to wages and land issues illustrates **social welfare problems in China**. Beijing's central government is aware of the need to address these challenges in order to safeguard China's political, economic and social stability.

Africa still lacks policies aiming to ensure that Chinese investments in the continent are benefitting Africans. In previous FOCAC meetings, needs for **skills and technology transfer** were a topic; this will need to be strengthened.

FOCAC V will need to tackle issues of standards in Chinese investments in extractive industries (energy, mining). China is increasingly addressing its environmental problems at home, improving regulation by publishing white papers and policy documents. Less has been done from Africa's side regarding sustainability of Chinese investments in environmentally sensitive sectors and areas. FOCAC is one adequate forum to set guidelines for more sustainability in Sino-African economic relationship.

Since China's "go out" policy in the late 1990s and the first FOCAC meeting in 2000, Sino-African trade has experienced important growth. Today trade between China and Africa has reached US$ 160 billion. But problems remain and need to be adjusted around FOCAC. **Diversification in imports and exports** is an issue for both sides. The trade imbalances between China and Africa are enormous. The major exports products to China from Africa are oil, copper, coal and iron ore products; consequently, the ten top African countries exporting to China are resource- or oil-rich countries (see figure 3). On the other hand, Africa's imports from China are mainly based on manufactured products (household equipment, motorcycles, footwear, spare parts; see table 1). This trend in Sino-African trade benefits China, which enters African markets to sell its manufactured goods and buy primary products with little added value for Africa. While there is an important presence of Chinese companies (SOEs, private

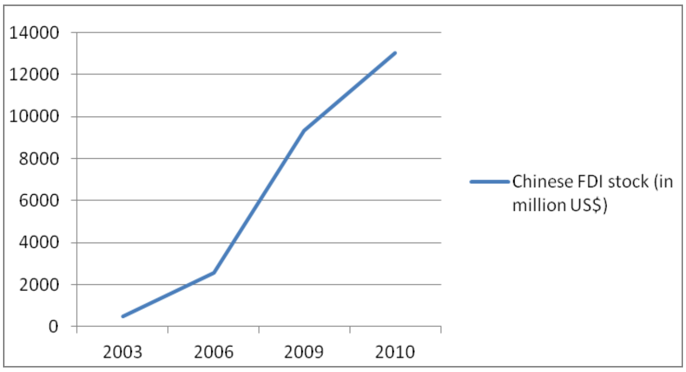
Table 1: Composition of exports and imports and share of six top African countries trading with China

Countries	Share in China-Africa trade (in %)	Exports to China	Imports from China
Angola	21	Crude oil, diamonds, refined petroleum, refined natural gas	Mechanical and electrical products, machinery, construction material
South Africa	18	Diamonds, Iron ore and concentrates, copper, platinum	Cotton, fabrics, woven, footwear, travel goods
Sudan	7	Crude oil, petroleum gases	Outer garments and clothing, tubes and pipes, steel, electronic equipment
Nigeria	6	Crude oil, ore, petroleum gases, nonferrous base metals	Footwear, motorcycles, batteries and accumulators, electronic components, lighting fixtures and fittings
Egypt	6	Oil, cotton, chemicals, metal products	Food, equipment, construction material, electronic components, electric generators
Algeria	5	Mineral fuels, plastic and products, copper, cork	Construction material, mechanical appliances, machinery, electronic products, vehicles and parts, ceramic

Source: MOFCOM and UNCOMTRADE, author's own calculation (average annual trade 2006-2010) and SMSE) operating in Africa, China remains untapped for African companies, with the exception of a few South African companies. African companies will need to start growing into the international market, thereby acquiring management skills and technology.

The Chinese side has a well-planned, long term agenda regarding their engagement with Africa in different sectors. They are not without challenges, though. 2011 and 2012 have been tricky years for Chinese investments in Africa. The *Arab spring* caused upheavals in Northern Africa and has seen **Chinese investments at high risk**. In Libya, China's central government had to intervene to repatriate 36,000 Chinese citizens and in Egypt and Sudan, groups of Chinese workers have been taken hostage. Chinese investments are often in high-risk zones not explored by other investors. China will probably turn more towards risk management and other security measures so as to secure its investments and people in Africa. Chinese minister of commerce, Chen Deming, has expressed the need to better manage and secure Chinese investments in Africa and has mooted the idea of claiming compensation from Libya for Chinese companies' losses during the civil war. Undoubtedly, the factors that "jeopardised" Chinese OFDI in Africa will be the centrepiece of the debate at FOCAC V.

Figure 2: Chinese FDI Stock to Africa 2003-2010 (in million US$)



Source: 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

In order to develop African economies, **OFDI is needed**. China has invested in Africa to sustain its growth and has thereby contributed to the economic rise of Africa. China's FDI stock in Africa last year reached more than US$ 13 billion (see figure 2). Yet, Chinese OFDI is directed towards Chinese multinationals to secure resources, acquire overseas expertise and gain new markets. African policymakers still lack a stated vision to better engage with China. It is thus somewhat ironic that African policymakers turn to China not only for its economic development model, investments and trade but also for China's "efficient bureaucracy".

China has provided **development assistance** to many African countries (debt's cancellation, hospitals and schools' building, medical aid). Aid contributes to China's political diplomacy strategy within Africa. Aid, however, always comes with caveats.

Recommendations

Africa needs to take control of its economic development path. As enshrined in the New Partnership for Africa's Development (NEPAD), transparency, corruption and governance issues need to be addressed to ensure public service delivery to people. This should also be the key agenda for FOCAC. From Africa's side, the cooperation and partnership with China should benefit people who mostly remain disadvantaged in their livelihoods; increased transparency will help ensure the reaching of targeted groups.

In Sino-African economic cooperation (trade, investments and aid), the lack of transparency, corruption and doubtful governance performance has been denounced by civil society. China should strongly consider these issues in its engagement with African countries—also with a long-term view to protect its investments assets and citizens in Africa.

For balanced trade, policies should be developed on both sides. With the rising purchasing power among Chinese and a shift towards consumer-driven growth in China, opportunities are presented to move towards a more balanced trade between China and Africa. The establishment of (temporary and targeted) protectionist measures to regulate China-Africa trade can also contribute to "fair trade". This, however, requires a strategic trade policy on the African side.

To face these challenges, Africa needs to emphasise pragmatism in its partnership with China. Country, as well as regional level policies should be developed to set priorities to achieve through FOCAC V. The African Union Commission - a member of FOCAC in its own right – should also undertake studies and analysis of African countries' needs to better engage the debate with Chinese officials.

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