ICTSD

International Centre for Trade and Sustainable Development

Gordon Institute of Business Science

University of Pretoria

In association with

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African Center For Economic Transformation

International Dialogue on

The New Coupling between China & Africa: Trade, Growth and Sustainable Development

23-24 November 2009, Johannesburg, South Africa

MEETING REPORT

This Report is an edited summary of the principal speeches made in the course of the Dialogue prepared under the control of the ICTSD Secretariat and has not been reviewed by all the speakers. The views expressed in this publication do not necessarily reflect those of the ICTSD or the funding institutions.

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There is no doubt about the deepening China-Africa relationship with record trade between the two regions. Increased political and economic ties are evident in the two coming together for the Forum on China-Africa Cooperation (FOCAC). The question is how to make this bilateral trade and investment supportive of sustainable development.

Against this backdrop, the International Centre for Trade and Sustainable Development (ICTSD) and Gordon Institute of Business Science (GIBS), in association with African Centre for Economic Transformation (ACET), jointly organized this international Dialogue entitled "The New Coupling between China & Africa: Trade, Growth and Sustainable Development" in 23-34 November 2009 in Johannesburg, South Africa.

The Dialogue brought together an inspirational gathering of political, economic and academic players and was opened by **Ricardo Melendez-Ortiz**, Chief Executive, ICTSD along with **Martyn Davies**, Director of The China Africa Network, Gordon Institute of Business Science (GIBS).

Melendez-Ortiz explained that the ICTSD, an independent organisation based in Geneva, was set up in 1996 to focus on international trade. Since then, the ICTSD "has established an annual dialogue with China, because of the developments that have taken place in the last few years. China is now the third most important African partner," Melendez-Ortiz went on, "and trade has diversified in a very impressive manner. It follows that we're interested in defining the strategic partnership between China and Africa," he said.

Davies pointed out in his opening remarks, "The growth of Africa in recent years has been underpinned by the 7% growth of the People's Republic of China (PRC), so the 'New Coupling' is really what it's all about. Just as Africa's growth is increasingly dependent on China's demand for raw materials, so China's growth is dependent, to some degree, on Africa's ability to supply these raw materials."He proudly pointed out that the event represented the first such China-Africa conference to be held.

Defining the Strategic Partnership between South Africa and China

The first speaker of the day was **Ebrahim Patel**, Minister of Economic Development, Department of Trade and Industry**,** Republic of South Africa**,** whose topic was: 'Defining the Strategic Partnership between South Africa and China'. Minister Patel was quick to point out that **"**One of the most significant relationships envisaged by South Africa is the one with the PRC**.** Since our industrial output **…** has declined to early 2004 levels**,"** the Minister added**, "**the Government**'**s focus over the next five years has to be on generating employment opportunities, as well as linking economic interests and employment outcomes.

"We must address longer term structural issues," he stressed. "Since the challenges facing us have been deepened by the recession, the overarching question is: How do we leverage international economic relations towards achieving these domestic goals?

"With Chinese investment having risen in Africa, China is now South Africa's largest trading partner," the Minister said, "and South Africa is Africa's industrial centre, with our trade pattern roughly reflecting the China-Africa relationship. At strategic level, it is clear that China is thinking long-term, establishing trade relationships with Africa while bypassing the London / New York stranglehold.

For our part, we have been developing the relationship between China and ourselves, while promoting the millennium development goals. We are keenly aware that we need to strengthen our manufacturing footprint, so we have been gearing up to utilise the technological interface so readily available from China. Our role is to identify our needs and priorities and then to mesh them with China's needs," the Minister concluded.

The search for potential African partners

The next speaker, **Professor Xiaoyun Li,** Dean, Centre for Integrated Agricultural Development, China Agricultural University. Professor Li has studied in Africa (in Tanzania) and knows the continent well.

"What we are dealing with – in terms of China's vision for development in Africa - is the reality of demand versus huge manufacturing capacity," Professor Li began. "China has to look for a mutually beneficial structure, or structures, beyond Europe and the US. In other words, we have to look for potential partners, such as African partners.

"Democracy itself is the product of development," Professor Li continued. "For us, there is the issue of sharing with Africa. You see, we understand and practise loyalty. In the same way, we understand the overlap between economy and politics, between support and responsibility," he explained, in closing.

China –the second largest economy

Dr Victor Zhikai Gao, Director**,** China National Association of International Studies**,** steered the opening session of the morning to its conclusion. "This conference is taking place at a very extraordinary moment in time," he observed. "China will soon surpass Japan as the second largest economy – and yet China is classified as a developing economy."

Dr Gao then asked the conference to join with him in coining a term: "ChinAfrica". As he explained**,** the drive is to **"**enhance the image of Africa (all 53 countries) in China." Dr Gao admitted that **"**China has its own problems, so the question is: 'How do we equate those with African development priorities?' We approach things in diametrically opposed ways," he observed. "You will say: 'We want to eat before we produce,' whereas we will say: 'We want to produce before we eat,' because that is the Chinese way."

Deepening the China-Africa relationship: Evaluating the Outcomes from the Forum on China Africa Co-operation (FOCAC)

The first panel session of the morning, on 'Deepening the China-Africa relationship: Evaluating the Outcomes from the Forum on China Africa Co-operation (FOCAC) was chaired by **Ed Brown**, Director, Policy Advisory Services, African Centre for Economic Transformation.

Brown led off with the contention that, "Regional cooperation between African countries is necessary to leverage a win-win relationship. Professor Xiaoyun Li picked up on this, pointing out that there is a "Difference between guidance, support and responsibility, in terms of the political behaviour that China supports economically."

Philip Idro, former Ugandan Ambassador to China for 6 years, drew on his insight. "We should be looking at a flexible**,** rather than a strict structural**,** mechanism**.** I heard it said when I was the Ambassador**:** **'**China **i**s a very big school and we are learning how to do things**'.**

"The Chinese developed their capacity by providing low-cost labour, which favoured Joint Ventures, so – quite simply - the money came in. Africans need to develop more strategic thinking. We need to create a new world order, after the manner of Tiny Rowland, of Lonhro. We have to emulate this kind of thinking."

Successful economic cooperation with China

Mohamed Zayed, Egyptian Ambassador to South Africa, Lesotho and Botswana, put things more bluntly. "We need stronger Chinese support to strengthen the capacity of African countries, but we also need to analyse our mistakes critically. Then we have to ask ourselves: what can we take from our economic association with China?

We don't create jobs; we don't add value. Without roads and transportation, we cannot move our products, so we cannot be competitive. What we need is to build a new breed of entrepreneurs to bring in investment.

"If we don**'**t do our homework, we can't expect to have successful economic cooperation with China. What I personally find very encouraging," he added, "are the increasing Chinese private sector development cooperatives in Africa, with African counterparts; in other words, the dedicated business-to-business engagements taking place in Africa.

"We know that African countries don't necessarily have the capacity to see good ideas through to bankable project level. This is where China has a role to play, with its unique engagement strategy. The key – for us - is to identify problems, or needs. The trouble is that we are too busy with international issues to problem-solve with our neighbours," he concluded.

Africa needs to seek unity of activity

The session was brought to a close with brief contributions from Dr Gao, who suggested that "Africa needs to see itself beyond arbitrary historical colonial boundaries and seek unity of activity", and finally from **Sam Muradzikwa**, Chief Economist, Development Bank of South Africa, who pinpointed the need to "Attract independent power producers into the energy space, because Africa remains disconnected."

China and Africa in the context of the Doha Multilateral Trade Round Negotiations

The first panel session of the afternoon (Session 2): China and Africa in the context of the Doha Multilateral Trade Round Negotiations, chaired by **El Hadji Diouf**, Programme Manager, EPAs and Regionalism, ICTSD, was opened by **Enheng Li,** Advisor to Shanghai Consultation Centre for WTO Affairs and Former Deputy Representative of Chinese Mission to the WTO.

Politically developing countries should have more say in the operation and decision-making process of the present Doha Round negotiations, Enheng Li believes, advocating what he terms a **"**Transparent, inclusive, bottom-up approach for developing countries. These countries should aim to "strengthen their negotiating positions and capacities by joining negotiating groups with common interests. China supports Africa's 'rational' demands**,"** he stressed**,** adding that **"**developing countries should pursue a mandate for self designation with regard to their food security, livelihood security and rural development**."**

Becoming a launching pad for the world market

For **Kofi Addo**, Senior Commercial Officer, Ministry of Trade and Industry, Ghana, the question was: "When the DDA (Doha Development Agenda) came about, was it really development oriented? Addo reminded the conference about the terms of the African Growth and Opportunity Act (AGOA), describing African countries in general as "Export-led economies with nothing to produce, hence the overtures to China to help us become a launching pad for the world market.

"We need to be strategic**,"** he emphasised**, "**and to probe opportunities." Given the need for technology transfer and strategic partnerships, Addo questioned whether in fact there was "room for a regional approach".

Peter Draper, Director, Development Through Trade Project, South African Institute of International Affairs**,** thought that**, "**Doha (Round) was a **'**really appealing concept'. In Africa and South Africa," he said, "we have resources and land - and China needs both. There are policy issues that need to be addressed**,"** he agreed**,** adding that – in his opinion – "currency fixing undermines export potential.

Utilising market possibilities to maximum advantage

"Should China and Africa not put heads together to access and utilise market possibilities to maximum advantage?" he asked. He also wanted to know why manufacturing in Africa to take advantage of tariff reductions does not happen more consistently, questioning the factors that militate against this becoming practice.

It was left to **Catherine Grant**, Director of Trade Policy, Business Unity South Africa, to close the session. She was adamant that "We need to go beyond tariffs, just as we need to address the cost of doing business in other countries. In fact, what we need are Bankable Projects," she said.

Agricultural trade and technology transfer between China and Africa

The final session of the day (Session 3), chaired by **Steve Davis** of the Gates Foundation, was opened by **Ron Sandrey**, Research Fellow, Trade Law Centre of Southern Africa. As he illustrated, China's statistics are impressive. The country has lifted 200 million small (scale) farmers out of poverty, on 0,63 hectares each, with a resource base of 20% of the world's population and 9% of the world's water.

Professor Li pointed out that this has been accomplished through technological intervention, in that technology has reached the last farmer – by dint of the extensive support base that has been put in place

George Marechera, Business Development Manager, African Agriculture Technology Foundation (AATF), endorsed Sandrey's figures. "China delivers 5 times the productivity of Africa by the small order farmer. This is achieved," he said, "because Technology is delivered. Furthermore, Public-Private Partnerships (PPPs) are Chinese Agricultural Development (CAD) funded. While Africa is lacking Bankable Projects, we would do well to remember that the money's there.

Both sides should benefit

"However," Marechera continued, "the Chinese are not donors; they are partners in development, which means that we need to negotiate with them from a fully informed position, so that both sides benefit." He closed by summing up the cornerstones of China's agricultural development as policy, input and technology – in that order.

Louis Kriel, CEO**,** Capespan Fruit**,** who modestly described himself as a **'**Global Fruit Trader**',** was the final speaker in this session. "We're a global export company," he explained, "and we move 56 million cartons of fruit worldwide annually. We have projects under way in China, as well as in many other parts of the world. Indeed, we're now the 2**nd** biggest supplier of citrus (next to the US) and the 5**th** biggest supplier of grapes to China**.**

We see a positive trend in the New Coupling. South African business will grow, based on the products we can grow and supply to China. The entry and growth of organised retail is flourishing in China, and products supplied from South Africa are counter-seasonal, so we don't compete.

Exporting our rain and sunshine

"Thinking wider**,** and looking at possible developmental areas for South Africa (and Africa) in China, there are definite investment opportunities in China to co-develop retail supply chains. For its part, China must look harder at investment in primary production in Africa. We are looking at partnership with the Chinese to expand our footprint in the food market. As we see it, we can export our rain and sunshine in this way.

"We believe that the way forward is through more dialogue with organised business and through investigating free trade. We all need to understand the funding mechanisms that exist to facilitate development in Africa, but the same is true for China. We need to embrace cultural diversity. We can achieve what we set out to accomplish through hard work, vision and dedication," Kriel concluded positively.

Competition and Industrialisation Efforts in Africa

Day 2 of the China-Africa Dialogue began with a panel session (**Session 4**), chaired by **Haifeng Wang**, Director, International Economy, National Development Reform Commission, on 'Trade Growth and its impact on Industrial Manufacturing in Africa'. **Hannah Edinger**, Head of Research at Frontier Advisory, spoke on 'China's Manufacturing Sector - Competition and Industrialisation Efforts in Africa'.

In terms of China-Africa trading relations, Ms Edinger pointed out that trade increased by more than 2 600% from 1995 - 2008. In real terms, this represented an increase from US$ 3,8 bn to US$ 106,8 bn, with the US$ 100 bn mark being reached two years ahead of time.

Oil, iron ore, wood and diamonds were the principal exports, while machines, capital equipment, consumer goods, clothing and textiles dominated the imports. "The question of whether or not Africa needs to have a more balanced trade relationship with China should then be raised," Ms Edinger stated.

While China's trade profile with Africa is similar to its profile with the rest of the world, the zero tariff for 440 Least Developed Country (LDC) products has yet to show significant gains for Africa. This may be due, in part, to Africa's winding diversification path, which is - as she put it - "slow and volatile.

China - an African Development partner

"China has become the manufacturing powerhouse of the global economy over the past 3 decades," Ms Edinger continued. "Africa's advantage in this regard is that it boasts a relatively cheap and readily available labour pool. China sees itself as an African Development partner and we must remember that China's support to African development is concrete and real," Ms Edinger stressed.

"The key contributory areas to this support are China's consistently constructive infrastructure rollout, with road, rail and ICT contributing to the lowering of costs, as well as the rollout of Special Economic Zones (SEZs)," she continued.

"When we consider that the market size of Africa is 900 million people, we have to acknowledge that the continent collectively represents a major trading partner. Competition should be seen as a catalyst for consumer benefit, while investment is focused on resource availability," she concluded.

Prioritising Sino-African relations

Yun Liu, of the Institute of African Studies, Zhejiang Normal University, spoke next, focussing on the Sino-African relationship. “There is a need to prioritise Sino-African relations,” he said. “For these to be meaningful, they must be characterised by long-term investment, which then results in tangible benefits both ways. The time is right, because it is clear that African countries are expanding their market capacity.”

Shakeel Meer, Divisional Executive: Industrial Sectors, Industrial Development Cooperation (IDC) then spoke about Africa’s traditional relationships which, he said, are historically predetermined. The pattern has seen resources going out and manufactured goods coming in. “Only the transfer of skills and technology will lead to resource beneficiation, which will enable Africa to grow a competitive industrial capacity,” Meer insisted. “Furthermore, with an eye on climate change, we can be ahead of the curve by looking forward,” he enthused.

Developing the indigenous private sector

On the subject of competitiveness, **Edward Ashong-Lartey**, Director, Business Development, Ghana Investment Promotion Centre, was adamant that, “Uncompetitive efficiency levels leave us out of the race.” He went on to suggest that the right remedial path is via Joint Ventures (JVs) and advised that there should be a conscious effort to develop the indigenous private sector.

Professor Xiaoyun Li, Dean, Centre for Integrated Agricultural Development, China Agricultural University, picked up on this. “Particularly with regards to technology transfer, Joint Ventures enable care to be exercised, ensuring that both sides are protected and facilitating the transfer of capacity,” he said.

Philip Idro, former Ugandan Ambassador to China (for 6 years), insisted that African countries must have a structure for internal reform. Furthermore, they “must concentrate on low-cost production”, he advised, bringing Session 4 to a close.

Chinese Financing for Development in Africa

Session 5, on Chinese Financing for Development in Africa, was opened by **Martyn Davies,** who asked delegates to consider whether China’s engagement in Africa was disruptive by dint of its sheer size, or its political thrust - or a combination of the two. “African countries need to channel incoming finances (from China) more strategically, to be on the right path, just as we should all be aiming to reduce the infrastructure deficit,” Davies said.

Naomi Ngwira, Director, Ministry of Finance, Malawi, then suggested that African countries have yet to gear up to how to interact with countries offering aid. As far as China was concerned, she said, she perceived a definite shift from ideological to developmental aid**.**

“Indeed, Chinese aid is project based – and it’s effective because it’s complete. Where the World Bank takes 3 years before aid is forthcoming, Chinese aid takes 6 months. The Chinese are not moralistic," she pointed out. "They are all too aware that political leaders' needs are vibrant but ephemeral."

New paradigm of engagement

"We need to find a new paradigm of engagement, then we - as Africans – need to learn how to shape this paradigm, so that the outcomes are mutually beneficial. Africa needs to be more assertive in this process," she stressed.

Johan Delport, a Research Economist with the South African Reserve Bank, described the Chinese economic development model as "Somewhat miraculous. In the interests of poverty alleviation," he continued, "we should therefore aim for a mutually beneficial relationship with China. In fact, we should leverage the power that China has to access, or provide**,** international funding**.** This represents a real opportunity for Africa, although there must be more innovation from our side," he said.

Funding is what **Windsor Chan**, Head of Credit and Risk Management, China Construction Bank, understands intimately. "We support investment," he was quick to say, adding that, "We see some drying up of liquidity in the USA and the UK, but we can extend financial assistance."

Credible alternative to failed Western policies

According to **Chukwuma Agu**, Research Fellow, Africa Institute for applied Economics, China provides a credible alternative to failed Western policies. He speaks of Africa with great fondness, describing her as "The beautiful bride that does not know her value." Looking at Foreign Direct Investment (FDI), Agu differentiated simplistically between Africa, which he equated with resources, and China, which of course is synonymous with finished products.

It was left to **Thys Pretorius,** CEO of Destiny Africa Investment holdings**,** to close Session 5.

"Financial capital is not enough," he said, "without human capital and problem-solving capacity. We must look at hand-made, but mass production. This way we will catch the imagination of the world," he concluded thought-provokingly.

Key Learnings from the Conference and the Way Forward

The final session (Session 6), entitled Key Learnings (Lessons) from the Conference and the Way Forward - and which slipped over easily into "Closing Remarks" - was opened by **Martyn Davies**.

"The role of trade is to facilitate development," he summarised. "While trade is an agent of development, it does not automatically facilitate development, which cannot take place sustainably without capacity building, succession planning and systematic training.

Prioritise infrastructure development

"As we have already heard, we must prioritise infrastructure development, both physical and social. Since Africa represents just 5**,**9% (6%) of China's FDI, a win-win strategy is our only option. We should also listen to the recommendations that are coming out of China: 'build self-sufficient capacity in government, management and human capital', they say to us. It comes back to the provision of physical and social infrastructure being the key to building a prosperous Africa.

"Naomi spoke about a new paradigm. The challenge lies in shaping the new paradigm to suit us. We also have to decide what model works for developmentally desperate sub-Saharan economies. There is a perceptible shift, in that Africa's relationships are shifting towards the East Asian / Chinese economy.

"We are faced with the fact that China is now the largest lender, financier and trading partner. With China in all of these capacities, we now have to design and implement a programme focussing on extractive industries, environmental issues and – of course – agriculture. How we as Africans put this programme together will largely determine Africa's competitive success in the future," Davies concluded meaningfully.

Unprecedented agent and catalyst of resource development

Ricardo Melendez Ortiz, of the ICTSD, emphasized that, **"**China represents an unprecedented agent and catalyst of resource development. Indeed, China and Africa are poised to enter new trade and development **'**territory'," he said. "While Africans have redefined their relationship with Europe**,** so that new terms of engagement – largely of their own making - lie ahead, Asia has transformed itself through the reorganisation of its production networks. "The Chinese like dealing with government first, so government needs to be better informed," Melendez-Ortiz cautioned in conclusion.

Professor Li – "Mutual benefit is the key" and **Viktor Gao** – "Mutual respect" each provided a succinct summing up of proceedings, leaving **Graham Butler**, Executive, Ferrous Metals Division, African Rainbow Minerals Ltd, to have the final word:

Development of resources is the key

"Development of resources is the key," he said convincingly. "It's all about the alleviation of poverty by developing our natural resources," he concluded, bringing to an end a groundbreaking conference of international significance.

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Founded in 1996, **International Centre for Trade and Sustainable Development** (ICTSD) is a global think-tank based in Geneva, Switzerland. By empowering stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity building, the Centre aims to influence the international trade system such that it advances the goal of sustainable development.

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Founded in 2000, **Gordon Institute of Business Science** (GIBS) is an internationally accredited business school based in Johannesburg, South Africa's economic hub. In May 2009, GIBS was again ranked as one of the top business schools globally by the prestigious UK Financial Times, the only African business school to be placed in the top 45 business schools worldwide for executive education programmes

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Founded in 2007, **African Center for Economic Transformation** (ACET) is a dedicated economic transformation center driven largely by Africans for Africans. Based in Accra, Ghana, the Centre is committed to improving the capacities of African governments to formulate and implement informed and sustainable economic policies with a view to enabling increased ownership and accountability in the development process among African governments.

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