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Trade and Sustainable Development News and Analysis on Africa

VOLUME 7, ISSUE 5 – JULY 2018



Reflections on China-Africa Economic Relations at a Time of Transition

AFRICA

What can be learned from the recent evolution of China-Africa economic ties?

INFRASTRUCTURE

The opportunities and risks of Chinese infrastructure finance

CHINA

Shedding light on the nature of China's economic engagement in Africa



International Centre for Trade
and Sustainable Development

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PUBLISHER

Ricardo Meléndez-Ortiz

EDITOR-IN-CHIEF

Andrew Crosby

MANAGING EDITOR

Tristan Irschlinger

ADDITIONAL SUPPORT

Fabrice Lehmann and Jocelyn Hu

DESIGN

Flarvet

LAYOUT

Oleg Smerdov

To join the Bridges Africa Editorial Advisory
Board write to us at bridgesafrica@ictsd.ch

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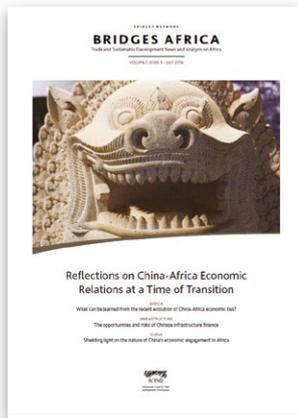
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Reflections on China-Africa Economic Relations at a Time of Transition



Economic relations between China and African nations have generated much interest among development experts and practitioners over the last two decades. Behind this attention lies the high stakes for Africa regarding the opportunities and challenges involved in the deepening relationship with the Asian giant. China has become the continent's largest trade partner since 2000, while Chinese investment and finance flows to Africa have also grown significantly. As such, China has become a major player on the continent, a partner with whom African countries must foster mutually beneficial economic relations in their development process.

There is broad recognition that China's engagement in Africa has positively contributed to the impressive growth experienced across the continent over recent years. However, numerous observers have questioned the balance and quality of the relationship from an African perspective, noting China's appetite for natural resources and seeming lack of interest in certain aspects of the continent's long-term development. Others have highlighted the potential for African countries to take advantage of their economic ties with China, with some calling for a more strategic approach by African leaders to increase African agency and make the best use this relationship.

Importantly, in a context of slowing Chinese demand and shrinking African borrowing capacity, the intensification of China-Africa economic relations seems to have subsided in recent years, pushing the complexity of the debate yet further. Data from the China Africa Research Initiative reveal that three key indicators – Chinese investment in Africa, China-Africa trade, and Chinese loans to Africa – have all been decreasing since 2013-2014. Against such a background, and ahead of the upcoming 2018 summit of the Forum on China–Africa Cooperation (FOCAC) that will take place in September, this issue of Bridges Africa offers a range of reflections on what the future may hold for economic cooperation between China and African countries.

In the lead article, Wenjie Chen and Roger Nord examine the recent evolution of economic links between China and Africa, suggesting that China's Belt and Road Initiative could help reinvigorate this partnership. The second piece, written by Yunnan Chen, looks at the role of Chinese infrastructure finance on the continent. The issue also features an article in which Lauren Johnston reflects on the possibility for Africa to capitalise on the end of China's demographic dividend. Thierry Pairault, for his part, underlines the relative weakness of Chinese investment in Africa and sheds light on the nature of China's economic engagement on the continent. In the final article, Iginio Galgiardone examines whether the involvement of China in Africa's telecom infrastructure has led to the imposition of a specific information society model.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.

AFRICA

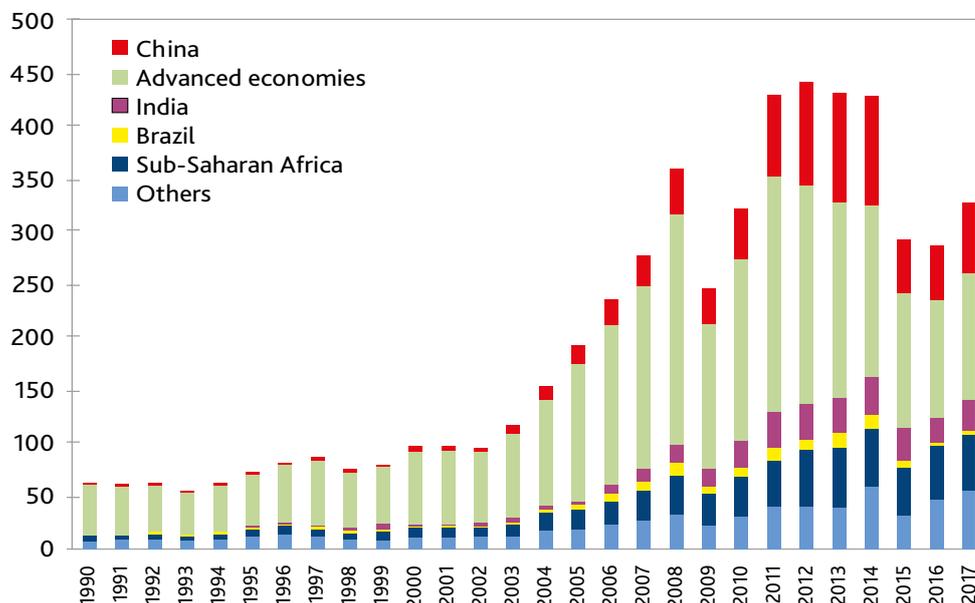
China and Africa: Whither the Belt and Road?

Wenjie Chen and Roger Nord

While economic ties between China and African countries have vastly expanded over the past decades, falling commodity prices and rising debt levels risk reversing this process. Can China's Belt and Road Initiative reinvigorate the relationship?

Economic links between China and Africa have increased dramatically over the past 20 years. Trade has risen more than 40-fold since the mid-1990s, and China is now sub-Saharan Africa's largest trading partner. China's foreign direct investment in Africa has also risen sharply, although based on official statistics, China still only accounts for about 3 percent of the stock of FDI in Africa.¹ And finally, China is a major source of loan financing for public infrastructure projects, with available data suggesting that China is now Africa's largest bilateral creditor, with total debt of about \$94 billion in 2015. Natural resources feature prominently in the economic ties between China and Africa. For example, in 2015, 70 percent of Africa's exports to China consisted of fuels, metals, or mineral products. But Chinese investment tends to be more diversified, covering sectors from telecommunications to financial services, and Chinese-financed projects range from hydroelectric dams to ports and railways.

Figure 1: Sub-Saharan Africa's total exports by partner (billions US\$)

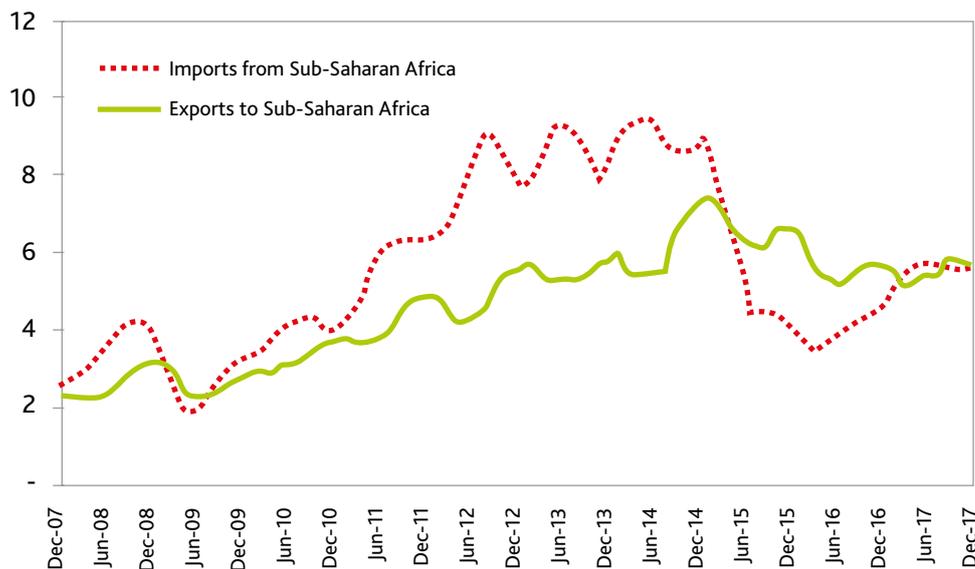


Source: Direction of Trade Statistics (IMF) and authors' calculations

This rapid growth in economic ties has served both Africa and China well. For Africa, trade with China has boosted economic development in many countries, and the financing of infrastructure projects, for which little concessional financing is available, has helped address crucial bottlenecks to industrial development and structural transformation. For China, while trade with Africa remains a small part of its total foreign trade, many of its project loans are tied to Chinese suppliers, and, as a result, about a quarter of all Chinese engineering contracts worldwide by 2013 on a stock basis went to sub-Saharan Africa, with most of these contracts being awarded in energy (hydropower) and transport (roads, railways, ports, aviation).

Recently, however, these ties have come under strain. With sharply falling commodity prices, Africa's export receipts have declined since 2014. While there are many different reasons behind this decline in commodity prices, one key factor has been the rebalancing of China's growth model away from investment towards relying increasingly on domestic consumption. This in turn has had a negative impact on growth in Africa. The continent's almost decade-old trade surplus with China has now turned into a trade deficit as lower growth in China curbs import demand.

Figure 2: China's exports to and imports from Sub-Saharan Africa (Billions US\$, 6-month moving average)



Source: Direction of Trade Statistics (IMF) and authors' calculations

In addition, borrowing space in African countries is shrinking rapidly. After the debt reductions of the 1990s and 2000s, many African countries had comparatively low levels of external debt. At the same time, traditional partner countries were shifting from providing loans to grants, and many were focusing on social sectors rather than infrastructure. Against that background, Chinese lending agencies started to provide significant financing for infrastructure projects in Africa. It is estimated that between 2000 and 2015, the Chinese government, banks and contractors extended US\$94.4 billion worth of loans to African governments and state-owned enterprises. At a political level, this was underpinned by the Forum for China Africa Cooperation (FOCAC), which beginning in 2000 brought together African heads of state and the Chinese leadership on the occasion of triennial summits. At the most recent FOCAC summit in Johannesburg, China pledged support of US\$60 billion over the period 2015-18. China's recently-launched Belt and Road Initiative carries the potential for providing further financing for Africa. But the reality is that many countries are facing shrinking borrowing capacity. Public debt in the median sub-Saharan African country rose from 34 percent of GDP in 2013 to an estimated 53 percent in 2017, and debt service as a share of revenue has doubled. In some oil-producing countries such as Angola, Gabon, and Nigeria, debt service amounts to more than 60 percent of government revenues. More than 40 percent of low-income countries in sub-Saharan Africa are now classified at high-risk of debt distress. As a result, both the demand and the feasibility of large infrastructure projects is falling. And some are already facing difficulty servicing existing loans.

With shrinking borrowing space, can FDI pick up the slack? Based on official data from China's Ministry of Commerce, FDI flows from China to Africa peaked in 2008 and 2013 and have slowed down markedly since then. Notably, this decline in Chinese FDI to Africa is occurring despite a surge in Chinese outward capital flow, especially by Chinese corporations, signaling investors' continued appetite for investments and high returns outside China. Of course, this trend is only indicative of the short term. Much of China's lending to Africa – as well as the political initiatives from FOCAC to the Belt and Road Initiative (BRI) – is based on the recognition that, over the longer term, Africa's growth

potential is significant. Provided African countries can pursue sound economic and social policies, the continent is expected to benefit from a huge demographic dividend, which could raise GDP per capita by 25 percent by 2050.⁶

But there are at least two caveats to that rosy forecast. First, tighter fiscal space and rising global interest rates will make foreign financing less ample. In the absence of compensating FDI flows, this will put a premium on the development of domestic financial sectors in Africa and reinforces the need for a much more rapid expansion of domestic revenue bases. Second, dramatic advances in artificial intelligence (AI) and robotics may call into question the assumption that Africa can become the next manufacturing hub of the world. In a recent study of the impact of automation on workers in advanced economies, the OECD estimated that about 14 percent of workers are at a high risk of having most of their existing tasks automated over the next 15 years, and another 30 percent will face major changes in the tasks required in their job and, consequently, the skills required.⁷ Another study by McKinsey estimates that automation will displace almost 13 percent of South Africa's current work activities by 2020.⁸ With many African countries still on the threshold of development, this may block industrialisation, which is often seen as the road to productivity growth and income convergence.⁹ Of course, AI can also create new opportunities for Africa, enhancing labor productivity and providing cheaper and more reliable services, for example in education and health care. But reaping these benefits will require nimble policies, both in the economic and social areas. This is likely the most important challenge – and not only for Africa.

Can the Belt and Road Initiative help address this challenge? If it is limited to more official lending for infrastructure development, it is unlikely to be the solution, given the shrinking borrowing space in many African countries. But if the Belt and Road Initiative can catalyse more private investment, including in sectors that boost productivity in Africa, then it may fulfill its promise.

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- ① Unrecorded FDI is likely to be much larger, particularly through small-scale investments. See *China's Second Continent: How a Million Migrants Are Building a New Empire in Africa* by Howard French.
 - ② Chen, Wenjie and Roger Nord. "A Rebalancing Act for China and Africa – The Effects of China's Rebalancing on Africa's Trade and Growth". International Monetary Fund, African Departmental Paper Series, 2017.
 - ③ International Monetary Fund (IMF). "African Regional Economic Outlook: Slow Recovery amid Growing Challenges." Washington D.C.: IMF, 2018.
 - ④ IMF, 2018, *op. cit.*
 - ⑤ For example, China is one of the principal external creditors of the Republic of Congo, which has recently embarked on a restructuring of its external debt.
 - ⑥ International Monetary Fund (IMF). "African Regional Economic Outlook: How Can Sub-Saharan Africa Harness the Demographic Dividend?" Washington D.C.: IMF, 2015.
 - ⑦ Organisation for Economic Co-operation and Development (OECD). "Transformative Technologies and Jobs of the Future." Paris: OECD, 2018.
 - ⑧ McKinsey Global Institute. "Jobs Lost, Jobs Gained, Workforce Transitions in a Time of Automation." 2017.
 - ⑨ Rodrik, Dani. "Premature Deindustrialization." *Journal of Economic Growth* 21 (2016); Rodrik, Dani. "Unconditional Convergence in Manufacturing." *Quarterly Journal of Economics* 128, No. 1 (2013).



Wenjie Chen
Economist, Research
Department, International
Monetary Fund



Roger Nord
Deputy Director, Institute
for Capacity Development,
International Monetary Fund

INFRASTRUCTURE

Crossing Rivers, Feeling Stones: The Rise of Chinese Infrastructure Finance in Africa

Yunnan Chen

As Chinese firms and capital play an increasingly dominant role in African infrastructure development, what are the potential opportunities for promoting sustainable development? And what social and environmental risks could this trend entail?

Across African cities, Chinese-emblazoned signs litter construction sites, airports, railways, and ports. Infrastructure – both its financing and construction – is an increasingly important and salient part of the maturing China–Africa relationship. During the boom years of the 2000s, reports and statistics of China's economic relations with Africa were dominated by trade – particularly the import of African minerals and natural resources. In the decade following the global financial crisis in 2008, China's role as an infrastructure financier and developer in Africa has become increasingly prominent. African countries have become important markets for Chinese state-owned enterprises (SOEs), supported by loan finance from China's policy banks.

This trend brings much-needed capital to countries where poor infrastructure has been an economic bottleneck and private investment has historically been lacking. However, the rapid burst in borrowing for infrastructure brings associated risks, both to African economies' financial and social sustainability. African governments must navigate a careful path between both new and old financiers; they must also build domestic capacity that allows them to better exercise their bargaining power in these partnerships.

Chinese infrastructure goes global

This growth of China's infrastructure finance in Africa came at a time when traditional donors such as the World Bank and other international financial institutions (IFIs) had retreated from financing large infrastructure projects, in part due to greater concerns over environmental and social risks. The 2008 global recession further dented Western countries' capacity for overseas lending, as well as the private sector's appetite for infrastructure investment in Africa. Since then, it has been the “rising powers” – China in particular – that filled this gap. China's domestic overcapacity and sizeable foreign reserves created an impetus to offshore this excess capacity, supporting new overseas investments as part of the country's long-standing policy of Chinese companies “going out.” Figures from the China Africa Research Initiative (CARI) at the Johns Hopkins University School of Advanced International Studies (SAIS) show this dramatic increase. Foreign direct investment (FDI) stocks rose to US\$25 billion in 2013, from just over US\$9 billion in 2009; meanwhile, committed loan finance to Africa peaked at over US\$18 billion in 2013, more than three times its 2009 level of US\$6 billion.❶

Discourse around infrastructure has also been prominent in the Forum on China–Africa Cooperation (FOCAC) summits, which also increasingly emphasises industrial cooperation and capacity building. While finance from China Eximbank or China Development (the two main export credit agencies) for infrastructure projects is comparatively less stringent compared to that of the IFIs in the requirements made of borrowing governments, infrastructure finance is still an instrument of China's export promotion: project finance is conditional on the contracting of Chinese firms, and corresponding procurement of Chinese technology, equipment, and services. The largest recipient of China's infrastructure finance in Africa to date has been Angola, with much of these funds having gone to support its national oil company, Sonangol. However, Chinese loans to Africa have by no means been limited to oil producers or resource-sectors.

In the last five years, some of the largest loans to Africa have been towards transport and energy infrastructure, partly spurred by China's Belt and Road Initiative (BRI), which has incorporated several major African port, railway, and industrial park projects. One major example is the new Kenyan standard gauge railway (SGR) line from Mombasa to Nairobi, financed through China Eximbank loans to the tune of US\$3.6 billion, with a second phase to be financed through a further US\$1.5 billion. Large SGR projects in Nigeria and the cross-border railway between Addis Ababa, Ethiopia, and Djibouti have also been funded through substantial commercial loans from China Eximbank.² Typically, these cover 85 percent of the total project cost. Large Chinese loans have also supported renewable energy projects, including the Renewable Energy Independent Power Producer Procurement Programme (REIPPP) in South Africa, and the 600 Megawatts Karuma hydropower project in Uganda.³

Though the China-Africa relationship has frequently been portrayed in the media as motivated by resource extraction that is environmentally damaging, many infrastructure cooperation projects have positive implications for sustainable development in Africa.

Opportunities and risks in Chinese development finance

Though the China-Africa relationship has frequently been portrayed in the media as motivated by resource extraction that is environmentally damaging – an example of a recent Memorandum of Understanding (MOU) signed for a bauxite mine in Ghana has raised alarms over its environmental impact – many infrastructure cooperation projects have positive implications for sustainable development in Africa. China's domestic technical capacity in renewable energy has also seen a "going out" process, and the country has financed wind farm projects in Ethiopia, solar power projects in South Africa, as well as multiple hydropower projects across the continent, including large projects in Ethiopia, Uganda, and Cameroon.⁴ Countries with significant hydropower generation resources, such as Cameroon and Ethiopia, have leveraged the capital and – more importantly – willingness of Chinese institutions to fund large hydropower plants, a sector that private investment and traditional donors and financial institutions have, in the last two decades, considered too risky. In the transportation sector, governments such as Ethiopia have leveraged Chinese finance to fund and construct new green infrastructure projects, including urban light rail (Addis Light Rail) and the landmark cross-border railway project linking the Ethiopian capital to the port of Djibouti – both projects are fully electrified, as part of the government's clean energy rationale, to exploit greener forms of energy from its substantial hydropower resources without depending on imported diesel.

While the speed and efficiency of Chinese contractors has often been lauded by African governments, the social and environmental impacts of these large infrastructure projects have raised concerns. China's problematic domestic record of environmental governance and accountability with respect to impact mitigation, and of poor labour rights, has led to concerns that these practices may be "exported" to developing countries with weaker governance structures.⁵ However, in the area of hydropower, where – with large dam projects – ecological impacts and social displacement can be significant, a major weakness of Chinese-financed projects compared to "traditional donors" lies not in the practices of Chinese firms themselves, but the transfer of responsibility for impact management to host-country institutions. Thus, in countries with stronger local institutions, Chinese projects unsurprisingly tend to perform better.⁶

Guided by the foreign policy principle of non-interference that also applies to development finance projects, responsibility for environmental impact assessments – though mandated as a condition of a loan by China Eximbank – are left to the host country to conduct and enforce, as is shown by the case of different hydropower projects

in Cameroon, where similar Chinese contractors may be subjected to different levels of pressure from respective project financiers.⁷ Unlike World Bank and other IFI supported projects, whose safeguard policies often mandate a comprehensive financial package for displaced people and plans for resettlement compensation, along with an obligation to bring in environmental and social impact specialists where host institutions lack capacity, Chinese actors can offer little assistance. This has ramifications for the social impacts of infrastructure, where large projects such as dams and railways often result in government appropriation of land and the displacement of local communities. Inadequate relocation and compensation mechanisms, which often rely on the resources and capacity of host governments, impact not only the construction and commissioning of projects – in the case of Memve'ele dam in Cameroon, delays in the social resettlement plans impacted when the project could be commissioned – but also have reputational consequences for Chinese enterprises and investments abroad, who may be held accountable for the impacts of projects they finance and help build, even if they shared no part in their design.

Building local capacity, both in technical as well as regulatory expertise and skills, will be integral for the long-term sustainability of large infrastructure projects in Africa. The long time-horizons that railway or hydropower projects require to be economically viable makes local ownership and technical capacity imperative. Currently, in the case of Kenya and Ethiopia's new SGR railways, the Chinese firms responsible for their construction have also been contracted for their operation over the next six years, with the aim of training domestic staff so that the projects can be locally maintained and managed into perpetuity without reliance on Chinese expertise. While these projects showcase positive initiatives of Chinese training local staff and supporting the local economy, the success of these programmes depends on achieving sufficient knowledge transfer between Chinese and local workers, successfully overcoming significant language and cultural barriers.

Deeper technology transfer is also hindered by the commercial incentives at play: Chinese SOEs may support knowledge transfer and skills training in some aspects of rail projects, for example, but – like other profit-seeking bodies – they have little to gain from handing over the underlying technology to local firms or industries. The supply-chain export of spare parts and components that comes with adopting Chinese technology also leaves little room for local firms or subcontractors to win commercial opportunities and upgrade their technologies through these industries.

While Chinese-financed projects are politically attractive means to achieve infrastructure development goals, the obligatory use of Chinese contractors and lack of environmental and social safeguards introduces latent and long-term risks to projects' sustainability.

Encouraging diversity and technology transfer

African governments face trade-offs in new infrastructure partnerships. While Chinese-financed engineering, procurement, and construction (EPC) projects are politically attractive means to achieve infrastructure development goals, the obligatory use of Chinese contractors and lack of environmental and social safeguards introduces latent and long-term risks to projects' sustainability. As other financiers, including European banks as well as other emerging powers, move into financing hard infrastructure, African decision-makers should exercise the bargaining power they have as buyers to diversify away from dependence on Chinese technology, even as they procure from Chinese firms. Turkish contractors such as Yapı Merkezi have become small but significant competitors to China in Africa, pulling in Turkish Eximbank as well as private European finance to back new railway projects in Ethiopia and Tanzania, and adopting corresponding European standards and safeguards in their construction.

As well as encouraging greater diversity and competition, pushing foreign firms and consultancies to work alongside Chinese contractors can also be a way to encourage diffusion of stronger norms around environmental and social impact that Chinese financiers' policies currently lack, and to create channels through which governments can more effectively hold contractors accountable.

Finally, knowledge and technology transfer in these infrastructure projects is crucial to both the management and maintenance of completed projects. Governments should leverage Chinese firms' and research institutions' substantial technical expertise and experience in management and construction, and push for training and technology transfer early in project negotiations. This would accelerate the process of building independent domestic capacity and skills in both project management and maintenance, reducing prolonged dependence on Chinese capital and labour. As these infrastructure loans now enter their repayment phase, the financial urgency of making projects viable and sustainable – both economically as well as socially – are in the interests of both Chinese and African partners.

- ❶ China Africa Research Initiative (CARI). "Our Data." www.sais-cari.org/data/.
- ❷ China Eximbank has signed loans of US\$1.2 billion to support the new Lagos–Ibadan SGR railway in Nigeria. SGR projects in Ethiopia also received loans of US\$2.49bn from Eximbank.
- ❸ China Africa Research Initiative (CARI). 2018. "Our Data—Chinese Loans to Africa." <https://bit.ly/2lHRx7a>.
- ❹ See, for example: Chen, Yunnan, and David Landry. "Capturing the Rains: Comparing Chinese and World Bank Hydropower Projects in Cameroon and Pathways for South-South and North South Technology Transfer." *Energy Policy* 115 (April 2018); Shen, Wei, and Marcus Power. "Africa and the Export of China's Clean Energy Revolution." *Third World Quarterly* 38, no. 3 (March 2017); Chen, Yanning. *A Comparative Analysis: The Sustainable Development Impact of Two Wind Farms in Ethiopia*. Working Paper No. 2016/7, Washington, DC: China Africa Research Initiative, November 2016.
- ❺ See, for example: Urban, Frauke, Johan Nordensvard, Giuseppina Siciliano, and Bingqin Li. 2015. "Chinese Overseas Hydropower Dams and Social Sustainability: The Bui Dam in Ghana and the Kamchay Dam in Cambodia." *Asia & the Pacific Policy Studies* 2, no. 3 (September): 573–89. <https://bit.ly/2tQQV28>.
- ❻ Hensengerth, Oliver. *Interaction of Chinese Institutions with Host Governments in Dam Construction: The Bui Dam in Ghana*. Discussion Paper 3/2011. Bonn: Deutsches Institut für Entwicklungspolitik, 2011.
- ❼ Chen and Landry, *op. cit.*



Yunnan Chen

PhD Candidate in International Development, School of Advanced International Studies (SAIS) at Johns Hopkins University, China Africa Research Initiative (CARI)

INDUSTRIALISATION

Harvesting from “Poor Old” China to Harness “Poor Young” Africa’s Demographic Dividend?

Lauren A. Johnston

As China’s four-decade long demographic dividend is coming to an end, the country is actively seeking to seize new economic opportunities in higher-value-added productive activities. Could Africa be the big winner of this economic restructuring?

In September, leaders of China and most African nations will gather in Beijing for the seventh triennial Forum on China and Africa Cooperation (FOCAC) summit. FOCAC is the umbrella platform under which regular ministerial meetings and working groups between Chinese and African governments take place since 2000. This year’s summit takes place in a year when China is celebrating the 40th anniversary of the “opening and reform” of the country’s economy launched by paramount leader Deng Xiaoping in 1979. Hosting FOCAC this year offers China a symbolic occasion to progress towards the long-standing promise to use its own developmental success to help less advanced developing countries, which dates to the Mao era but was prominently reiterated by Chinese President Xi Jinping at the World Economic Forum in Davos in 2017.

Little is known in advance of the details of this year’s FOCAC summit agenda. Much, however, is known of slower moving and relatively predictable demographic shifts that underpin rapidly deepening economic ties between China and African nations. This piece explores those demographic shifts and, more specifically, how the passing of China’s low-wage demographic dividend opens a new window for African nations to seize the opportunity offered by their own emerging demographic dividend era.

China’s four-decade demographic dividend

In 1979, Deng Xiaoping set China’s course away from autarky and onto a path of “opening and reform.” Amid pervasive poverty and the devastating incidence of recent famines, the aim of this programme of economic reforms was to incrementally and experimentally embark on a development trajectory via which China would realise the Four Modernisations – in agriculture, industry, national defence, and science and technology – first elaborated by Premier Zhou Enlai in 1964. Reducing population growth was seen as a means of both supporting and hastening the attainment of these goals. Therefore, to further slow already falling birth rates, the country introduced what became commonly known as the “one-child policy”, which lasted for 35 years until a two-child policy was introduced in 2015.

What ensued was a demographic dividend lasting for 42 years. This underpinned China’s labour-intensive export-led transformation from autarkic backwardness to “factory of the world”, and now to emerging giant of the world economy. A demographic dividend is understood as a transitory window of economic growth potential resulting from an increase in the working-age population share. The basis of such dividends lies in a rise in the support ratio, a weighted ratio of dependents and economically active contributors to an economy. China’s support ratio began rising in 1971 as a result of declining fertility more than offsetting declining infant/child mortality. China’s total fertility rate fell rapidly from 1980 onwards and has more recently stabilised below replacement level (of 2.1) at around 1.6. At the same time, life expectancy rose by nearly a decade, a combination providing for China’s ongoing demographic transition, a process that can be defined as “a fall of fertility and mortality from initially high to subsequent low levels and accompanying changes in the population.”

When a demographic transition coincides with a process of incremental labour transfer from the informal rural sector to the formal industrial sector, the resulting productivity

gains offer a relatively rapid industrialisation window. In economics, such a process was elaborated in Lewis' "Economic development with unlimited supplies of labour", and is now commonly referred to as the Lewis Model in the economics literature. Around 1980, being home to a youthful, poor, and mostly agrarian population offered China this type of remarkable – and temporary – economic opportunity window, which the country used through a successful incremental agenda of "reform and opening" in its efforts to achieve the Four Modernisations. Much less studied in the literature, if at all, but nonetheless important was a parallel opportunity in the broadly concurrent – although marginally earlier – high-wage demographic dividend that most developed countries experienced from around 1970. This "double-demographic dividend", the advent of parallel complementary economic dividends in China and partner countries, arguably opened by far the greatest export-led Lewis Model-style industrialisation and growth window ever seen in history. In a potent example for African leaders today, China's leaders did not fail to use it to boost the country's economy and improve the living standards of Chinese citizens.

It was around 2007, however, that China entered a new period over which labour would incrementally become scarcer, and in turn more expensive.² China's revealed comparative advantage index for labour-intensive goods peaked in 2003, and China has since experienced increasing wage-related pressures. Alongside the exhaustion of its labour surplus, at a broadly concurrent time, the share of China's population aged 65 and over passed the empirical benchmark of 7 percent often used to determine whether a population should be defined as "ageing". This combination marks a dramatic turning point for China's economy, and the beginning of a long decline of the country's support ratio – as the weighted working-age population share is getting smaller. The resulting gradual loss of remaining low-age advantages broadly coincided with the global financial crisis, with much tighter domestic and international growth conditions as the overall result. In turn, China now faces an uphill journey to reach its goal of entering the high-income group by achieving a higher level of prosperity to the benefit of its citizens. An extensive body of literature in China summarises this particular challenge around the notion of "getting old before getting rich" coined by demographer Cangping Wu in the early 1980s.

China's fading demographic dividend in global context

In this context marked by tighter growth conditions, it has been estimated that China's falling support ratio alone will dampen growth by as much as 1.2 percent per annum, against an earlier positive effect of 1.4 percent per year. Against this backdrop, Chinese policymakers seek to identify and seize new economic opportunities in advanced manufacturing and tertiary sectors in more developed coastal provinces, while relocating less advanced industries to inland provinces. Importantly for many African nations, they also seek to take advantage of cross-country differences in the timing of population ageing by newly investing labour-intensive industrial capacities that are now less competitive domestically in emerging low-wage demographic dividend "frontier" countries abroad.³ The four-quadrant Economic Demography Matrix (EDM) presented in Table 1 offers a simple framework for understanding the underpinning landscape transformation in terms of global economic demography, and its potential to better support long-run African development.⁴

Table 1: The Economic Demography Matrix

		Demographic Transition	
		Early	Late
Economic Transition	High-Income	Rich and Young (RY)	Rich and Old (RO)
	Low and Middle-Income	Poor and Young (PY)	Poor and Old (PO)

Note: Old = share of population aged 65 years and over ≥ 7% (and young otherwise); rich = GNI per capita at or above \$12,476 in 2016 (and poor otherwise).

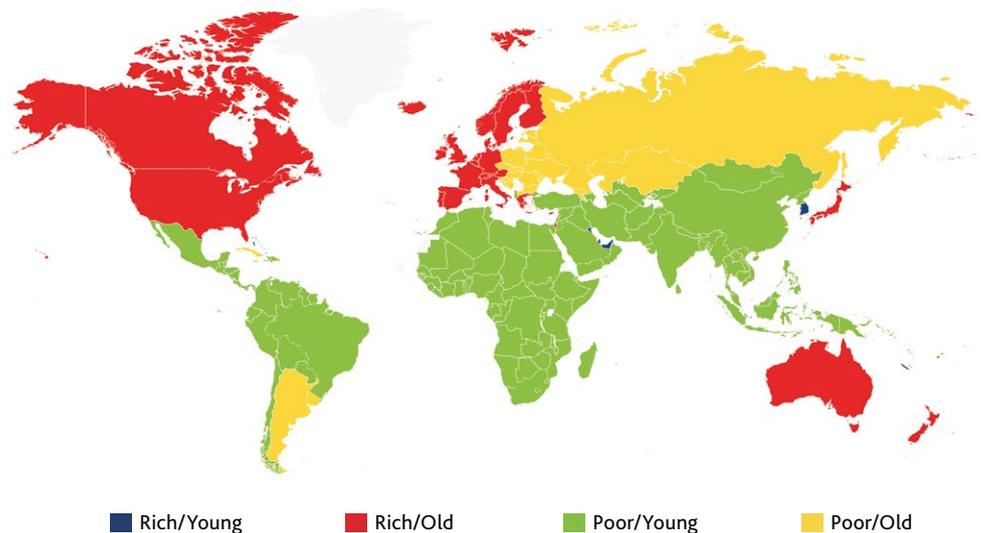
Table 1 presents four basic combinations in terms of demographic and economic situations: young and poor; young and rich; old and poor; old and rich. Through this EDM lens, the demographic shifts in China mentioned above have moved it out of the "young and poor" quadrant and into the "old and poor" quadrant. This signals a fundamental shift

in factor advantages, and more specifically a gradual decline in labour-related comparative advantage.

In response, China now seeks to transfer its low-wage industries to today's "poor and young" demographic dividend "frontier" countries (countries marked in green in Figure 3). Unlike "poor and old" countries, "poor and young" countries offer low wages, and some of them are potentially on the verge of an era of low-wage industrialisation and productivity gains – as described in the Lewis Model – as was China in the 1980s. China's rising foreign aid and expanding array of concessional lending institutions and instruments are being geared to support this agenda, notably under its flagship "Belt and Road" initiative.

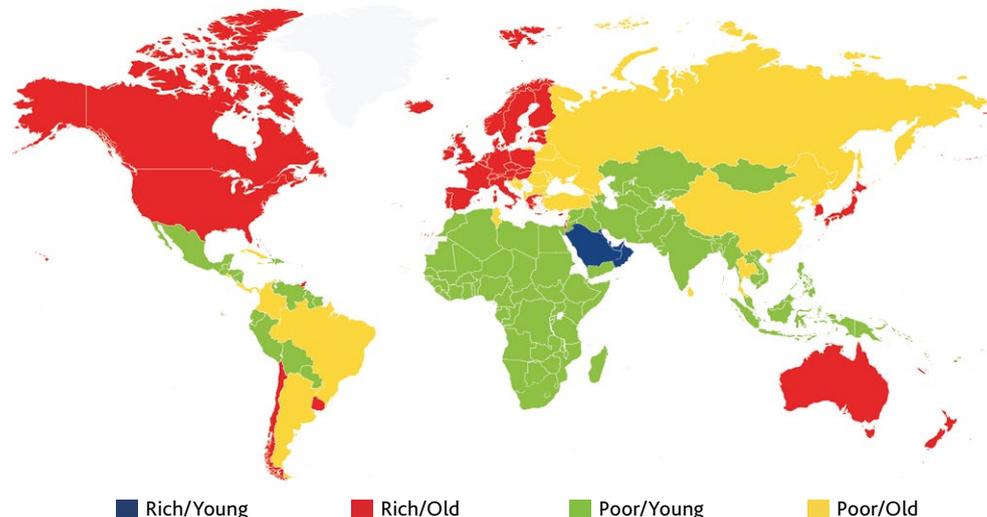
Figure 2 and 3 illustrate these shifts in global economic demography of the last two decades. Over the twenty years dividing the two figures, the transition of several relatively economically advanced developing countries – including Brazil, China, Colombia, Thailand, Tunisia and Turkey – from "poor and young" to "poor and old" is striking and warrants more attention in the literature as to the political and economic consequences. Figure 3 alone draws attention to the fact that the remaining concentrated cluster of "young and poor" (green) countries is African.

Figure 2: Countries by position in the Economic Demography Matrix, 1996



Data source: World Bank, World Development Indicators (2018).

Figure 3: Countries by position in the Economic Demography Matrix, 2016



Data source: World Bank, World Development Indicators (2018).

Specifically, and for static comparison, World Bank data shows that sub-Saharan Africa (SSA) in 2016 had an average share of population aged 65 and over (one indicator of demographic transition) of just 3.1 percent. For comparison, the same figure was 4.7 percent for China in 1980. At the country level, in 2016 Uganda had SSA's lowest share of older population, with just 2.2 percent of population aged 65 and over, and Seychelles (already in the high-income group) had the highest, with 8.4 percent. In Ethiopia, a prominent target of China's labour-intensive manufacturing investors, the same share stood at just 3.5 percent in 2016.⑤

The demographic literature considers that in 2016, a share of 2.8 of older population higher is an indicator of having begun a process of demographic transition. When this share reaches 5.5 percent, the threshold of demographic dividend has been crossed. Finally, a 10 percent share of persons aged 65 and over is considered as the threshold for the stage of late demographic dividend. In 2016, China had a 10.1 percent share of older population. In other words, whereas Figures 2 and 3 suggest that Latin American countries may have been unlucky in having their period of demographic transition coincide with that of China's hundreds of millions of worker-strong demographic dividend, African countries may instead sit on the cusp of a "sequential demographic dividend" that they can more readily – and together with foreign investor partners such as China – reap to foster their own industrialisation process.

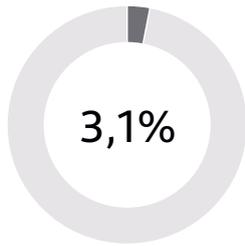
China-Africa population and development cooperation

This comparative demographic transition overview served to draw implicit attention to the direct and indirect potential for cooperation between China and Africa in related areas, of the kind that may be on the agenda if this year's FOCAC summit. Directly, there are vast opportunities for China to invest in the economies of the "young and poor" demographic dividend "frontier" countries. Moreover, China is home to hundreds of billions of dollars of savings and is specifically looking to reinvest now excess industrial capacity in infrastructure and low-wage labour-intensive industries especially.⑥

Together, these trends mean that it is timely to extract relevant developmental lessons from China's successful – and unsuccessful where so – experience of harnessing its own low-wage demographic dividend. Along the lines of the "Beijing Call for South-South cooperation on Population and Development," an outcome of the Ministerial Strategic Dialogue held in Beijing in March 2016, there is, to that end, already a process of deepening China-Africa cooperation in the area of population and development. Areas of nascent such cooperation include sexual and reproductive health, reproductive health rights, gender equality, and population and development. This section offers a brief elaboration of China's population and development cooperation institutions and investments in Africa's human capital.

The United Nations Population Fund (UNFPA) has identified four areas where China's experience in capturing its own demographic dividend could be used to draw lessons for African countries: employment and entrepreneurship; education and skill development; health and well-being; and rights, governance, and youth empowerment. In that direction, and in the footsteps of the African Union's 2017 summit theme of "Harnessing the Demographic Dividend through Investments in Youth", the first-ever China-Africa Conference on Population and Development was held under the same banner in April 2017, in Nairobi. The event was jointly organised by the China Population and Development Research Centre, Kenya's National Council for Population and Development, with support from the UNFPA. Topics covered included "demographic transition and demographic dividend with an emphasis on human capital, education and skill development, health transition, building on the experiences from China and East Asian countries as well as specific initiatives from participating African countries." Nairobi was also announced as the permanent host of a research centre established with support from China to train African experts in population management.

The second annual China-Africa Conference on Population and Development will be hosted by Guangzhou in July 2018, under the theme "South-South Cooperation and



World Bank data shows that in 2016, sub-Saharan Africa (SSA) had an average share of population aged 65 and over (one indicator of demographic transition) of just 3.1 percent.

Achievement of Demographic Dividend in Africa." Topics to be covered include issues related to adolescents and youth, reproductive health and reproductive rights, population ageing, population data, research methodology, and South-South cooperation, among others. Alongside, China is investing intensively in the education of African youth, and in educational and science and innovation-related infrastructure in Africa. At FOCAC in 2015, President Xi announced 40,000 training opportunities for Africans in China, and 30,000 government scholarships. Many more are sure to be announced at this year's FOCAC summit. In early 2018, China also announced the establishment a new aid agency, the State International Development Cooperation Agency, that will spearhead these types of development cooperation initiatives.

As part of education- and research-related cooperation efforts, there are also numerous examples of Chinese-funded new universities and extended university facilities being constructed in African countries, as well as an increasing array of partnerships aiming to consolidate and advance research collaboration. Examples include the Chinese-funded Malawi University of Science and Technology, the country's fourth public university, opened in 2014. In mid-2016, the China Shenyang University of Chemical Technology agreed to establish a Chemical University of Technology in Nigeria. An agreement between Mount Kenya University (MKU) and China University of Petroleum seeks to ensure that MKU can provide Kenya with an adequate supply of high-quality oil and gas experts for its own needs. In January 2017, the Chinese-built School of Biomedical Sciences at the University of Health and Allied Sciences in Ghana's Volta region was officially handed over to the national government. Such investments, not without their own challenges, are future-oriented and build upon the earlier UN-led Millennium Development Goals push to improve primary school enrolment rates.

In line with China being well-positioned to invest in African countries' demographic dividends over coming years, these educational investments have been part of a long-run "win-win" development strategy. Also as part of this approach, numerous research institutes are in parallel deepening researcher-to-researcher contacts. Examples include the University of Witwatersrand (Wits) and China University of Mining and Technology Joint International Research Laboratory of China-Africa Mining Geospatial Informatics – a collaboration which has been developing since 2013 – and a partnership between Ghana's GIMPA School of Technology and China's University of Electronic Science and Technology.

In general, these evolving physical and human capital investments by China in Africa, and parallel deepening Sino-African educational and research partnerships, are relatively little studied in the development literature. Their impact should, however, become clearer in future when their contribution to the joint capture of an African demographic dividend is better understood.

Discussion

China's hosting of the seventh triennial FOCAC summit in September 2018 arrives at an especially opportune time for deepening demographic dividend-related cooperation between China and African nations. This is because it comes at a time of transition, when frontier and less resources-driven African countries are emerging as potential candidates to take over the position that China long occupied as the global "poor and young" economic engine and "factory of the world", and are ultimately likely become an African equivalent in the decades ahead, subject to technology shifts and broader trends of the world economy. This implies a vast and lucrative potential for reaping the productivity gains of a growth process of the kind described by the Lewis Model, but which itself will require a focused strategy by both African stakeholders and foreign investors for capturing those gains. China and East Asia in general offer useful recent reference points for such a process.

Via the African Union, regional economic communities, and national governments, efforts are underway to ensure that this possibility becomes reality, as it did for China over a momentous 40-year era of "opening and reform." Prominent among them is the African Continental Free Trade Area initiative, which seeks to boost trade between

African countries with a view to fostering development across the continent. The dramatic implementation of a one-child policy at low-income levels enhanced the awareness of Chinese policymakers and researchers about the importance of the interaction between demography and the economy over time. African countries would do well to try to extract related and relevant lessons from China's experience, and the country's decades of dynamic labour-intensive economic growth. This could prove instrumental as a reference point in their efforts to negotiate with Chinese investors and to build economies that will be able to increasingly compete in international markets for lower-wage labour-intensive manufacturing and services.

Each African country will experience its own combination of demographic and economic transitions, and thus its own way of moving between quadrants of the Economic Demography Matrix (EDM) or staying stationary. Alongside taking advantage of the widespread population ageing across both the developed world and the larger emerging markets, it is also crucial – and timely – to understand how to design and time development strategies in an iterative manner to reflect how demographics are interacting with the economy and politics over time. This would, for example, help inform optimal educational investment levels so as to ensure that in the longer-term future prospective smaller workforce cohorts are endowed with the educational resources to maintain the necessary productivity to pay for the aged. Studying the past and present challenges of countries that are today in the “poor old” (e.g. Brazil, China and Turkey) and “rich old” (e.g. OECD countries) quadrants of the EDM would be important in that regard.

It indeed will be the choice of individual African countries as to how to mould new demographic dividend-related opportunities into optimal national, regional, and continental development outcomes over coming decades. This year, FOCAC partner China celebrates 40 years of its own continuing work in that direction. And hence, the 2018 FOCAC summit presents a critical opportunity for African and Chinese leaders to discuss the case for mutually beneficial trade, investment, and aid opportunities to support mutual development.

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- ❶ FOCAC was instigated in 2000 in the footsteps of less comprehensive equivalents such as the Europe-Africa summit and the Tokyo International Conference on Africa Development (TICAD). Summits are held every three years and rotate between a Chinese and an African city.
 - ❷ See Cai, F., 2010. Demographic transition, demographic dividend, and Lewis turning point in China. *China Economic Journal*, 3(2), pp.107-119, and Garnaut, R., 2010. Macro-economic implications of the turning point. *China Economic Journal*, 3(2), pp.181-190.
 - ❸ Bloom, David E., Canning, David, and Günther Fink. Implications of population ageing for economic growth. *Oxford review of economic policy* 26, No. 4 (2010); Johnston, Lauren. “Boom to cusp: Prospecting the ‘new normal’ in China and Africa.” in Ross Garnaut et al. (eds.). *China's Domestic Transformation in a Global Context*. Canberra: ANU Press, 2015.
 - ❹ For an early iteration of the herein Economic Demographic Matrix, see Johnston, Lauren, et al. “Getting Rich After Getting Old: China's Demographic and Economic Transition in dynamic international context.” In Ross Garnaut et al. (eds.). *China's New Sources of Economic Growth Vol. 1: Reform, Resources and Climate Change*. Canberra: ANU Press, 2015.
 - ❺ World Bank. *World Development Indicators*. 2018
 - ❻ See Johnston, Lauren. “The Economics of China's Africa Return.” in Binns, Tony, Lynch, Kenneth, and Etienne Nel. *Handbook on African Development*. London: Routledge, 2018.



Lauren A. Johnston
Fellow, Global Labour
Organisation, and Founder,
New South Economics.

INVESTMENT

China in Africa: Goods Supplier, Service Provider rather than Investor

Thierry Pairault

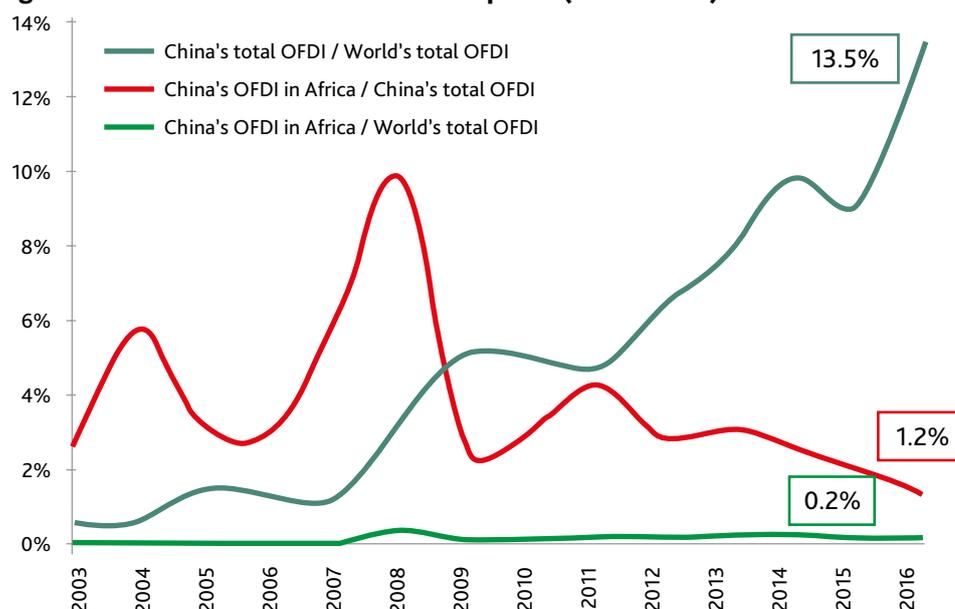
While in the development community and beyond, there is a widespread feeling that China is investing heavily in Africa, factual data shows the precise opposite. How can this be explained, and what is the real nature of China's economic engagement on the continent?

China's official data on outward foreign direct investment (OFDI) are difficult to interpret. Here we will focus on trends and draw comparisons, which are less likely to be impacted by Chinese companies' penchant for offshore financial centres (including Hong Kong) – that attract about three-quarters of their total OFDI. The trends in the data from the Chinese Ministry of Commerce (MofCOM) suggest that Chinese investment in Africa is not only modest, it is falling: the value of Chinese OFDI flows into Africa for 2016 was US\$2.4 billion, a decrease of 19 percent compared to 2015 (\$2.9 billion), which was a fall of 7 percent compared to \$3.2 billion in 2014, itself a fall of 5 percent compared to 2013, which was the second-highest year from 2003 to date.

In 2016, China's OFDI in all of Africa was equal to 14.1 percent of the amount China invests in the United States; 83.6 percent of the amount China invests in Canada; the same as the amount China invests in Germany.

While the share of China's total OFDI flows has increased steadily since 2003 to 13.5 percent of the world's total OFDI, the share of China's OFDI in Africa has declined consistently since 2011 and is now only 1.2 percent of China's total OFDI and 0.2 percent of world's total OFDI (see Figure 1).

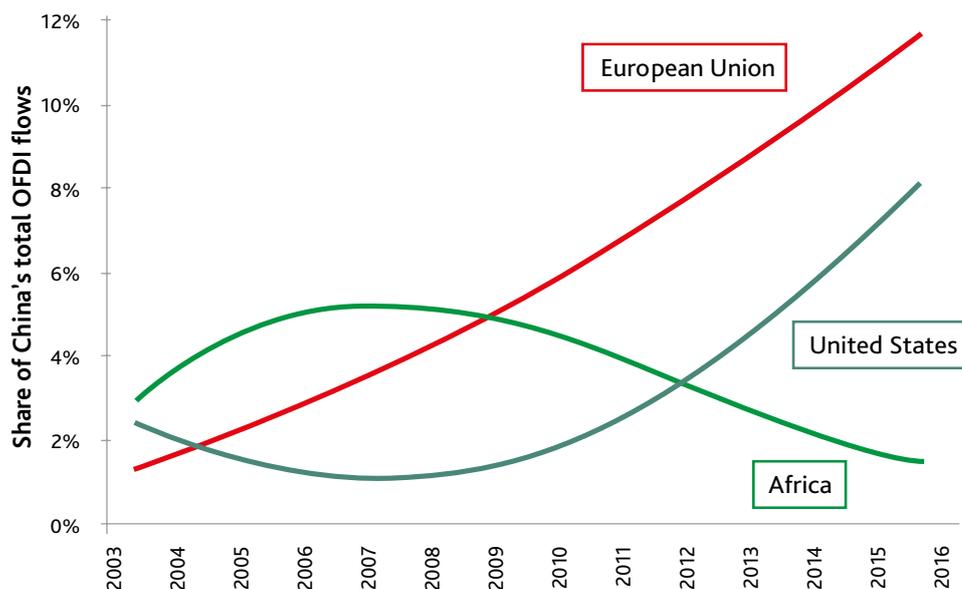
Figure 1: China's annual OFDI flows compared (2003-2016)



Sources: MofCOM, UNCTAD

Other MofCom data further highlight this strategic move of China's OFDI away from Africa: the share of Chinese investment flows in Africa seems to have peaked, while that in the European Union and the United States has been steadily rising (Figure 2).

Figure 2: China's OFDI flows destinations compared (2003-2016)



Sources: MOFCOM

Nevertheless, beyond these comparisons, one fact can describe even better the actual weight of China's OFDI flows in Africa. In January 2017, after criticism by the newly elected US president, Donald Trump, Ford Motor Company scrapped plans to build a US\$1.6 billion plant in Mexico; this was an investment plan for an amount equal to two-thirds of China's investment in Africa in 2016 for just one plant in one country by one company. Then, the question arises: How is one to reconcile the feeling that China is investing heavily in Africa with factual data showing the precise opposite?

China-Africa economic ties: What are they made of?

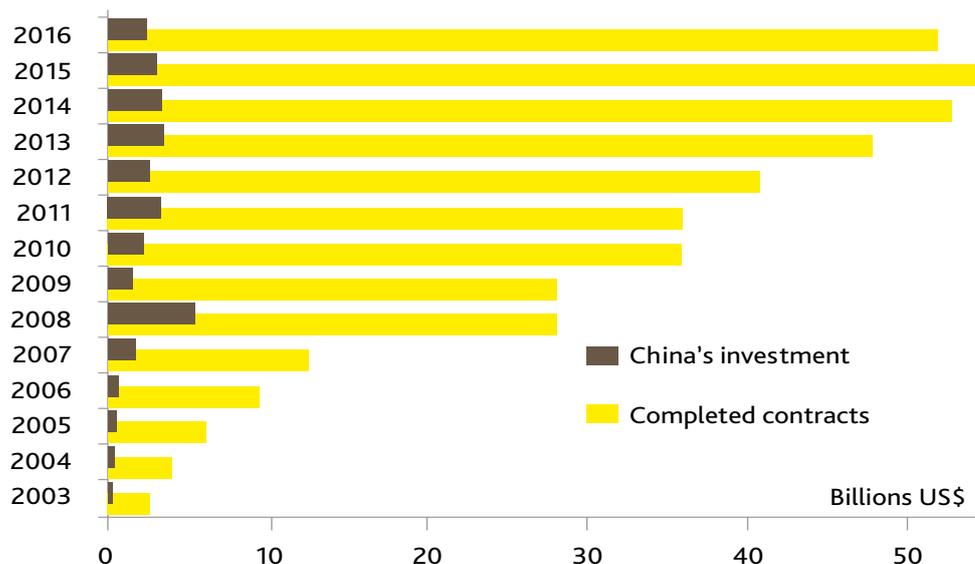
Once again, we are confronted with a classic confusion between investing, financing, and providing services. International bodies (International Monetary Fund, Organisation for Economic Co-operation and Development, and others) have given a clear definition of what should be considered an investment; it is a definition to which China adheres and which is recalled in the MofCOM's last Statistical Bulletin:

"FDI is an activity in which an investor resident in one country obtains a lasting interest in, and a significant influence on the management of, an entity resident in another country. This may involve either creating an entirely new enterprise (so-called "greenfield" investment) or, more typically, changing the ownership of existing enterprises (via mergers and acquisitions). Other types of financial transactions between related enterprises, like reinvesting the earnings of the FDI enterprise or other capital transfers, are also defined as foreign direct investment."¹

China does not invest in infrastructure in Africa but builds and finances African investments in infrastructure.

In order to shed more light on the confusion and give investment its exact role, one approach is to compare the amount of investment to the value of services provided, taking the turnover of overseas construction contracts completed in one year as a proxy for services.² Figure 3 shows that the turnover achieved by Chinese construction companies in 2016 was more than 25 times higher than the amount invested by China in Africa. This was not an exception but the rule.

Figure 3: China in Africa – investment vs completed contracts



Sources: MofCOM, National Bureau of Statistics

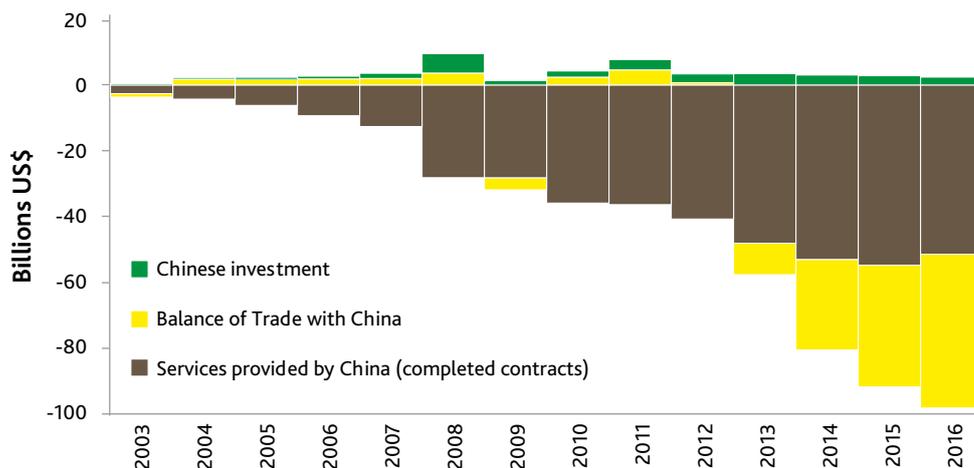
It must be perfectly clear that China's investment in Africa is an expense for China, but not an income for the hosting African country. On the other hand, payment for services is an expense (and at the same time an investment) for the client African country and a revenue for China. Keeping in mind this difference, these two activities each illustrate, in their own way, China's presence in Africa. They show clearly that China is a service provider rather than an investor, that Africa is more a customer than a partner. This conclusion would be even more evident if the services were to be added to the Chinese goods bought by African countries or, more accurately, to the growing African merchandise trade deficit with China.

Some African countries are engaged in major infrastructure projects which they finance through loans, thus at the price of an *a priori* legitimate debt, but one which is increasingly burdened by the appearance of growing trade deficits. Over a long period from roughly 1995 to 2012, Africa's trade balance was in its favour and it was even largely in surplus from 2003 to 2012 (except in 2009). In contrast, the four years from 2013 to 2016 were marked by large and growing trade deficits. During an initial period from 1995 to 2010, Africa's trade balance with China was either slightly in deficit or slightly in surplus, while from 2013 onwards, the trade deficit increased so significantly that it reached US\$46 billion in 2016, equivalent to Africa's trade deficit with the rest of the world.

This situation is largely due to the composition of African exports and imports in the context of a global economic downturn and the resulting fall in commodity prices. From 2012, African exports of ores, minerals, metals, and fuels^③ fell by two-thirds, both to China and the rest of the world. At the same time, African imports of manufactured goods increased considerably until 2015 (+29 percent when they were Chinese products), before starting to fall sharply the following year.^④ This same category of products from other countries experienced a significant drop (-15 percent) over the same period compared to 2012. All these developments together led to the situation where, in 2016, the African deficit vis-à-vis China was equal to its deficit vis-à-vis other countries taken as a whole, while the volume of Africa's trade with China represented only 15 percent of Africa's volume with the rest of the world.

What do the three categories of statistics (investment, services, and balance of trade) show? In Figure 4, for a given year, the amount of Chinese investment in Africa and Africa's trade surpluses with China appear on the positive side of the axis. On the negative side are the costs of the Chinese services provided in a given year – for African governments to pay either all at once or in instalments (loans from China's Exim Bank, for example) – and Africa's trade deficits with China.

Figure 4: China in Africa – investment, completed contracts and trade compared (2003-2016)



Sources: MofCOM, UNCTAD

Figure 4 unequivocally substantiates the nature of China's economic relations with Africa as a whole. China in Africa is not primarily an investor but a provider of services and also a supplier to which Africa is indebted as a result: in 2016, the amount of Chinese investment in Africa was equivalent to 2 percent of the debt generated in the same year by both the completion of services by China's companies and the trade deficit with China.

Adjusting expectations

African countries should look at the facts – just the raw facts, without asking whether the Chinese presence in Africa is appropriate or not, efficient or not, desirable or not – and first take into account what China is actually doing and expecting to do. China is not a magic wand that will solve Africa's development conundrum. Like many other African experts and decision-makers, Lamido Sanusi, Emir of Nigeria's Kano state and former governor of the country's central bank, says just that; he urges African countries to be proactive and make China work for their development strategy so that "the romance must be replaced by hard-nosed economic thinking."⁵

Dreaming that China could invest and create tens of millions of industrial jobs in Africa is unrealistic. "If only it were so easy," sighs Ambassador Shinn in a post berating the speech by Helen Hai, CEO of the Made in Africa Initiative, at the Africa 2017 Summit in Sharm El Sheikh and the injudicious enthusiasm it aroused.

Take, first, the findings of a report published in December 2017 by the Peking University Center for New Structural Economics and the Overseas Development Institute, which made it clear that very few Chinese light manufacturing firms (garments, footwear, household appliances, toys, etc.) struggling with rising costs are considering relocating. For those that do, moreover, the report finds that Africa does not appear to be a likely destination. Hence the report's recommendation: "The first, and most important [policy implication for potential host country governments], is the need for realism about the overall potential for jobs transfer – the numbers of 'outbound' jobs are not large."

Second, there are the figures disclosed by the MofCOM. According to them, Chinese companies located in one of the 99 industrial parks approved by MofCOM in 44 countries around the world created an average of 59 local jobs each. It would therefore require a huge number of Chinese companies to create the tens of millions of jobs that some are dreaming about.

Thirdly, there is automation and the political commitment to make systematic use of artificial intelligence. The relative cost of automation is expected to be modest compared with the value it can create, thus making work relocation uncompetitive even if it is done in countries where labour costs are very low.⁶ The Made in China 2025 strategy does

not actually support the relocation of production lines that have become unprofitable, but effectively advocates their replacement by automated lines that reshape the entire structure of production, or even the whole industrial sector to which this production belongs.

The plan is ambitious and its philosophy straightforward. Accordingly, if China were to sell its outdated and inefficient production lines to some African countries, there would be a risk that they would very soon face competition from China's new production lines, since the conditions today in Africa for relocation and marketing are by no means comparable to those prevailing in China in the years 1980-2000. Hence the issue of Chinese special economic zones (SEZs), the second strand of the African dream narrative. In fact, several types of SEZ should be considered.

First, there are the ordinary SEZs: these are the free zones also called free-trade zones, export-processing zones, industrial free zones, etc. These are zones defined by the government of one country to host companies from other (preferably developed) countries under favourable tax, legal, administrative, and migration conditions. Their objectives are twofold. One is to attract selected foreign investors as part of a development strategy. The other is to promote industrial and commercial exports. Most of these SEZs are located in developing countries, including China.

African countries should look at the facts – just the raw facts – and first take into account what China is actually doing. [...] China does not invest in infrastructure in Africa but builds and finances African investments in infrastructure.

A second type are the "Chinese SEZs": these are the Foreign Economic Cooperation Zones registered by the Chinese Ministry of Commerce. Unlike the ordinary SEZs, they are Chinese enclaves on foreign territory, subsidised and financed by the Chinese government to host Chinese companies that will manufacture under privileged conditions for the local market. Today, there are three of these in Africa that are performing more or less well according to available reports. A fourth should have emerged in Algeria, but it was an obvious failure. From the outset, there was a contradiction between Algerian and Chinese aspirations, since there is no rationale for equating the development objectives of any African government with those of the Chinese government. Moreover, from an African point of view, there is no reason why such enclaves should cater to the internationalisation of Chinese enterprises – as proclaimed by MofCom – instead of having as a priority the economic development of the host African country.

Third, there are the "contracted-out SEZs": these are free zones whose management is contracted out (a concession) to a foreign company.⑦ When the grantee is a Chinese company, the resulting situation is quite similar to the previous case but with one important exception: the grantor is not the Chinese government but an African government. But even in this case, nothing guarantees the final compatibility of objectives. Djibouti has bitterly experienced this after granting the management of its port and free zone to DP World. Today, China Merchants Port has taken up the torch more or less on a trial basis and should encourage Chinese companies to set up in the free zone it manages now. Such a move could bring a boost to Djibouti's economy, which has a low base of manufacturing jobs, but short-term social benefits may far outweigh medium-term economic ones, so development objectives might not be achieved as dreamt.⑧

From an African perspective, the only rational choice is the ordinary type of SEZ (in fact the one China adopted successfully for itself in the 1980s), in which the host country is the operator, free to select foreign companies, not according to their nationality,

but according to their medium- and long-term development goals. Even so, it is worth recalling Samir Amin's warning:

"This strategy has a name – and it is no coincidence – 'redeployment'. Actively supported by the World Bank, it makes the multiplication of new enclaves – the 'free zones' – sound like a 'new order'. Obviously this strategy minimises the role of the local state, consigned to the functions of an administration simply responsible for policing the exploited work force."⁹

African countries can (and should) capitalise on China's experiments, its presence on their continent, and its appetite for raw materials, but they must keep their "eyes open," as former Nigerian finance minister Ngozi Okonjo-Iweala warns.

This article builds upon a shorter blog post published on the China-Africa Research Initiative's blog.

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- ❶ *OECD Economic Outlook*, no. 1, 2003. Moreover, to be considered as a direct investment, an investment must represent at least 10 percent of the shares; otherwise it is a portfolio investment (therefore most often speculative).
 - ❷ Chinese statisticians use the terms "contracted projects," *chengbao gongcheng*, and "value of turnover fulfilled," *wancheng yingye*'e. "Overseas contracted projects" refer to activities in which overseas construction projects are contracted by Chinese enterprises.
 - ❸ UNCTAD SITC Classes 3 + 27 + 28 + 67.
 - ❹ UNCTAD SITC Classes 6 + 7 + 8 - 667 - 68.
 - ❺ Lamido Sanusi. "Africa Must Get Real about Chinese Ties." *Financial Times*, 11 March 2013.
 - ❻ This is at least what two McKinsey reports published in January and December 2017, entitled, respectively "A Future that Works: Automation, Employment, and Productivity" and "Where Machines Could Replace Humans—and Where They Can't (yet)."
 - ❼ A concession grants an operator a long-term right to use all public service assets allocated to it, including responsibility for the entire operation and investment, but the public authority retains the ownership of assets.
 - ❽ SEZs in Ethiopia are experiencing only moderate success. There is one purely Chinese SEZ (MofCom licensed) and several zones subcontracted to Chinese private operators. See my contribution to the international symposium on emergence organized in Grenoble in May–June 2018: "Rereading Lin Yifu: Africa and the Chinese Emergence Model," <https://cecmc.hypotheses.org/40333>.
 - ❾ Samir Amin. "Le nouvel ordre économique international, quel avenir?" *Revue Tiers Monde* 21, no. 81 (1980): 43.



Thierry Pairault

Research Director at France's Centre National de la Recherche Scientifique (CNRS) and at the Center of Studies on Modern and Contemporary China at the École des Hautes Études en Sciences Sociales (EHESS—School of Advanced Studies in Social Sciences)

CHINA

Is China Changing Information Societies in Africa?

Iginio Gagliardone

China's growing interest in supporting the development of Africa's telecom infrastructure has been met with suspicion in some quarters. Is such engagement favouring the emergence of an authoritarian version of the information society on the continent?

Huawei, China's leading telecom equipment company, recently announced its intention to begin operations on a new submarine telecom system connecting Asia and Africa. The project, Pakistan East Africa Cable Express (PEACE), is a vivid example of the Belt and Road Initiative in action. It signals China's determination to strengthen and expand its ties with Africa and to step up its role in supporting the development of the continent's information societies. This begs the question: is China imposing its information society model on the continent?

This engagement in Africa's development has taken multiple forms on the ground, including foreign direct investment by private and state-owned enterprises, and concessional state loans and export credits. Little of this is formally considered "aid" by the OECD's definition. But it still contributes to development goals for African countries, as it has resulted in substantial infrastructural upgrades in areas such as transportation and energy production. However, unlike that in big dams, highways, and railways, Chinese economic involvement in information and communications technologies (ICTs) has not manifested visibly to African populations at large. This invisibility, together with other factors, has aroused feelings of suspicion, often resulting in China being blamed for some of the changes in Africa's information societies.

Nationally rooted visions of the information society

China's first steps in Africa's ICT sector have been met with accusations that Beijing may be trying to export its model abroad, engendering a more authoritarian version of the internet. The analysis of different cases in China's contributions to the shaping of ICTs in Ethiopia, Kenya, and Ghana, offers little support to this hypothesis. China seems to have kept true to its pledge to support nationally rooted visions of the information society, rather than promoting template approaches.

This means China has to address a variety of requests. In the cases mentioned above, these included the aspirations of the governments of Ghana and Kenya to strengthen infrastructure and the capacity of the state to deliver services in a competitive environment, as well as the ambition of the Ethiopian leadership to expand access under a monopoly. In all instances, relationships seem to have been driven by African rather than Chinese actors, with the Chinese government and companies offering financial and technical backing to projects envisioned at the local level.

In addition, it appears that China has not selected specific allies in Africa according to their compatibility in reinforcing a particular vision of the information society. Rather, it has interpreted ICTs as yet another opportunity to multiply its allies on the continent. For example, the apparatus of control and surveillance created by the Rwandan government presents the closest analogue to the complex model developed by China. And yet, Rwanda is one of the few countries in Africa where China has not built a strong presence – to date – in the ICT sector, leaving room for another Asian country, South Korea, to significantly contribute to the development of the national ICT infrastructure.

All stakeholders should play a role

In all these cases, however, cooperation has invariably been directed towards the state, rather than other actors involved in the shaping of functioning information societies. In authoritarian Ethiopia, China's Exim Bank has made available more than US\$3 billion to

support the government-owned Ethio-telecom in the overhaul of its telecommunications infrastructure. In democratic Ghana, where the telecommunications market is liberalised, China intervened by boosting the capacity of the state to own infrastructure and gain an edge over other players. This element throws a wrench into the argument that China is backing locally rooted visions of the information society, and raises important questions about China's motivations.

It is clear that the involvement of different actors is essential in shaping a positive future for the Internet – governments, private companies, and civil society organisations all have valuable roles. In Kenya, the private sector has played a paramount role in pushing the boundaries of innovation, breaking previous frameworks set by the state to regulate telecommunications and banking. It was civil society, however, that shifted innovation not just in the direction of better access and greater profits, but also towards the creation of applications and strategies to counter corruption, map violence, and combat hate speech. A famous example is the early-warning platform Ushahidi, developed initially to allow citizens to report cases of violence in the aftermath of Kenya's 2007 elections. It has since been deployed to help coordinate efforts after natural disasters and political crises.

Globally, there are countless instances of conflicts between different types of actors that eventually lead to constructive change in information societies. For example, the European Union brought to light how behemoths of innovation like Facebook, Google, and Amazon have exploited their global nature to avoid taxation, denying European citizens a due share of the profits made in their countries. The mobilisation of civil society stopped US legislation that could have given extreme powers to the music and movie industries to block online content. German regulation forced Facebook to take a more aggressive stance against fake news.

By reinforcing the capabilities of the state, rather than those of other stakeholders, to shape the evolution of ICTs, Chinese actors have been supporting a vision of telecommunications that is skewed towards public institutions. This stands in contrast to the issues-based approach favored by other countries when it comes to foreign intervention, particularly in aid. Other countries tend to first pinpoint specific agendas, then select in-country partners that could best help achieve these goals. China's actor-based approach, while legitimate, could have serious consequences.

New trajectories for ICT policy?

Some aspects of China's involvement in developing Africa's information societies have been undoubtedly positive. However, it has also allowed political elites to extend their control over their countries, reducing opportunities for alternative conceptions of the information society to emerge. A single too-powerful actor – in the case of China's involvement in African ICTs, the state – in the domain of information may cause more harm than good. This configuration may prevent checks and balances from functioning at critical junctures, such as around elections, or when new legislation is proposed.

The accusation of China supporting an authoritarian version of the information society in Africa does not seem tenable in a strict sense. But the fact that states are being helped in asserting their own visions and projects over those of other actors may bring this accusation closer to the truth in the longer term. Are there ways to prevent this outcome from becoming a reality? Three possible trajectories can be imagined for actors in Africa, China, and the West to develop policies and strategies that can address this new configuration of forces in the African ICT sector and use it towards building more inclusive and innovative information societies.

First, China's preference towards supporting the state is placing greater pressure on African polities to ensure their institutions are indeed democratic. As argued before, China cannot be accused of authoritarian bias. Despite accusations of an emerging Cold War over the Internet – including in Africa – China has supported projects in countries with the most diverse political systems. Ethiopia, the country with the largest Chinese support in ICTs on the continent, has recently undergone a process of substantial political transformation,

with a new prime minister, Abiy Ahmed, being appointed also in response to popular protests and demands. While it is still early to assess how this will actually affect the Ethiopian Internet, the new government has already promised liberalisations in numerous sectors, including telecommunications, an area that for decades Ethiopian leaders said to be untouchable. If this plan becomes a reality, it will be interesting to map whether this change will also lead Chinese actors involved in the Ethiopian ICT sector to change the course of their activities, adapting to new demands and taking on the new reform agenda. Ethiopia could thus become an example of how a country that was supported by China in its stubborn project to maintain monopoly over ICTs can transition towards creating a relatively more open information space, possibly still with China as its ally.

Second, China's "no strings attached" policy, which has become a trope in its engagement with countries in Africa and globally, has begun to show some cracks and it may be time for some aspects of it to be rethought. This approach has supported locally rooted visions of the information society – as explained earlier – but it can also arguably be blamed as a way to relinquish responsibility for how things are implemented and for the outcomes produced. In my meetings with representatives of Huawei in Ethiopia, it was apparent how they had little faith in the Ethiopian project of maintaining a monopoly, but were not allowed to articulate their position in the open because of China's official stance of non-interference. And yet, China could have had a lot to teach. As illustrated by numerous studies on China's path towards innovation, China was quite successful in introducing reform and liberalising ICTs in a previously monopolistic regime, and displayed remarkable ability to localise foreign technologies and utilise aid and foreign direct investment to strengthen its domestic market and industries. China's now massive exposure on the international stage makes hiding behind its non-interference policy more hypocritical. A more visible stance on the best practices in promoting the evolution of ICTs may expose China to greater criticism and failures, also from his partners, and not just its opponents, but that is what is expected from a power competing for global influence.

Finally, if Western donors, the US in particular, want to remain truthful to their pledges supporting the development of open information societies, they have to recognise some of their own mistakes and responsibilities, rather than just blaming their opponents. The US have accused Huawei to be hiding "backdoors" in their equipment and prevented them from operating within their borders. However, leaks from the former US National Security Agency (NSA) contractor Edward Snowden have later revealed that the NSA itself tried to install backdoors in Huawei's networks, giving to such accusations an ironic twist. As Thomas Rid succinctly put it, "there is now more publicly available evidence that the [US] NSA exploited Huawei than there is public evidence that shows the PLA [the Chinese People's Liberation Army] or other Chinese agencies did so." Some Western donors have begun to address these contradictions. The European Union has enforced tougher regulations towards European companies selling software for spying, censoring, and surveilling to authoritarian regimes.

China's increased footprint in the ICT sector in Africa can represent a unique opportunity to reflect on some of the strategies and visions adopted to date to support the evolution of national information societies. This can only happen, however, if we develop appropriate tools to understand China's role in its own terms, and let evidence of successes and failures emerge, rather than expecting that any collaboration will have pre-determined outcomes and lead to more closed information spaces and lesser freedoms.

This article build on a shorter piece initially published by AsiaGlobal Online.



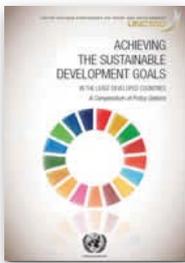
Iginio Gagliardone
Senior Lecturer in Media Studies,
University of the Witwatersrand,
and Associate Research Fellow in
New Media and Human Rights,
University of Oxford

Publications and Resources



Crafting a Framework on Investment Facilitation – ICTSD – June 2018

A coalition of over 70 WTO members endorsed a Joint Ministerial Statement on Investment Facilitation for Development during the global trade club's 11th Ministerial Conference. The statement outlined the group's interest in exploring more "structured discussions" on the issue, with the objective of crafting a "multilateral framework on investment facilitation." Given this development, this policy brief aims to provide context to the investment facilitation discussion, both inside the WTO and externally, along with mapping issues and options for interested members to consider going forward. <https://bit.ly/2yUARv1>



Achieving the Sustainable Development Goals in the Least Developed Countries – UNCTAD – June 2018

This Compendium reviews the policy recommendations derived from the analytical reports produced by UNCTAD's Division for Africa, Least Developed Countries (LDCs) and Special Programmes over the past 14 years. It is primarily addressed to LDC policymakers, as an easily accessible reference, offering a comprehensive and coherent set of policy options which LDC governments may consider in their challenging undertaking of achieving the Sustainable Development Goals (SDGs). <https://bit.ly/2sFZ7B4>



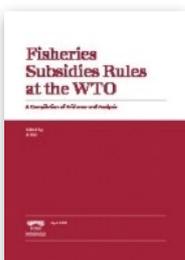
The African Continental Free Trade Area: The Day After the Kigali Summit – UNCTAD – June 2018

At a time when trade is questioned in some parts of the world, and after more than two years of negotiations among members of the African Union, African leaders gathered in Kigali on 21 March 2018 and signed an agreement establishing the African Continental Free Trade Area (AfCFTA). This policy brief examines the expectations for the AfCFTA and outlines areas that require prompt action by African nations for the agreement to deliver on its expectations. <https://bit.ly/2IzWrLi>



The Rising Potential of e-Commerce for Trade and Development in Africa – TRALAC – May 2018

This paper examines the role of electronic commerce (e-commerce) and related Information and Communication Technology services (ICTs) in the furthering of trade and development in Africa. It begins with a discussion of how ICTs can drive development through creating new, accessible models of trade. The analysis then examines readiness for business-to-consumer and business-to-business electronic trade, as well as indicators of overall Internet penetration, technology adoption, postal reliability and credit card uptake across the continent. <https://bit.ly/2skPjgt>



Fisheries Subsidies Rules at the WTO: A Compilation of Evidence and Analysis – ICTSD – April 2018

At the WTO's Eleventh Ministerial Conference in December 2017, ministers adopted a Decision on Fisheries Subsidies directing negotiators to continue talks with a view to adopting an agreement by 2019, the year of the next ministerial conference. The ministerial decision also specifically re-commits WTO members to implementing their existing notification obligations in order to strengthen transparency of the subsidies provided to fishing. The papers in this compilation aim to respond to some of the technical and legal questions the negotiations have brought up. <https://bit.ly/2K3C8Yv>

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International Centre for Trade and Sustainable Development

Chemin de Balexert 7-9
1219 Geneva, Switzerland
+41-22-917-8492
www.ictsd.org

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