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China and Africa –
Opportunities and Challenges

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Introduction

During the last 25 years, China's economy has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. China's reforms started in the late 1970s with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment (China online, 2006). The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in China's GDP since 1978. Available data shows that as at 2004, China was the fifth largest economy in the world; but the 129th in per capita terms as it harbors over 20% of the world population (World Development Indicators, 2006). Nevertheless, China's achievement in poverty reduction is unparalleled as it reduced the percentage of its population living on $1/day from about 33% in 1990 to 14% by 2002. China's economy grew by 9.9% in 2005 and according to the Central Bank of China, it is projected to grow by 9.2% in 2006. Indeed, according to The Economist issue of September 9-15, 2006, as at the second quarter of 2006, China had recorded 11.3% growth rate which is not only the highest in the world so far this year but also suggesting that China may exceed the projected growth rate for this year.

The upshot of the foregoing is that China's role in the global economy has become very significant and growing stronger since the beginning of this Century. For example, it is projected to become the fourth largest economy in the world by 2006 as it overtakes the UK; the fourth largest receiver of FDI and next to Japan in terms of foreign reserves holding. In 2005, PRC became the world's second largest consumer of petroleum products after the USA, and its imports of natural gas, copper, cobalt and other key resources are rising by as much as 20% annually. China currently obtains about 28% of its oil and gas from sub-Saharan Africa, which also has a high proportion of the most desirable sweet crude.

In recent times, Africa has also witnessed considerable improvement in its growth performance. For example, since the beginning of this Century, sub-Saharan Africa (SSA) has been registering positive growth rates in per capita gdp terms. However, SSA as a region, registered the lowest annual growth rate of 4.8 in 2004. This improved performance has been credited to the increases in prices of primary commodities, especially oil, metals and other minerals as well as agricultural commodities. As a result, the oil and gas producers including Chad and Equatorial Guinea registered over 10% growth rate while Nigeria, despite the problems in the oil producing areas, still registered 6% growth rate in 2004. On the other hand, countries that are unable to benefit from the on-going commodity boom such as Central African Republic and Cote d'Ivoire and Eritrea, Niger and Zimbabwe registered growth rates of less than 2 per cent in the same year.

Given the rising profile of China on the global stage, especially its remarkable economic performance, it is reasonable to expect that it will play greater roles in the global economy than many of the OECD countries. For example, China is now a donor nation and in January 2006, it released its policy toward Africa dubbed, **China Africa Policy**. The China-Africa Policy aims at carrying forward the long tradition of China-African friendship involving enhancing solidarity and cooperation with African countries. For this purpose, China pledges to establish and develop new type of strategic partnership with Africa featuring political equality, mutual trust, economic win-win cooperation and cultural exchange (China-African Policy, 2006). In Part IV of the policy document, China articulated its strategy for engaging with Africa in political field; economic field; education, science, culture, health and social field; and peace and security field. Observers of the activities of China on the continent over time will notice that the key elements of the policy has been implemented long before the policy was released.

Several analysts and commentators hold sometimes diametrically opposite views on the implications of the emergence of China on the world stage for African development prospects and each camp have very cogent arguments. However, I find the position of His Excellency, Jakaya M. Kikwete, President of the Republic of Tanzania quite inspiring as he rightly stated that China and India will not transform Africa; Africans will transform Africa (World Economic Forum on Africa, 2006: 13). He was also reported to have said that ultimately, it is up to Africa to start rowing the boat. Instead of Sino-African relations transforming the continent, the China-India twosome could lend assistance to the transformation and development process (China Monitor, June, 2006).

The morale of this disposition is that it is more pragmatic for Africa focus on designing suitable partnership arrangement aimed taking maximum advantage of the opportunities presented by the emergence of China on the world stage and ameliorating the adverse effects of the challenges it may pose. In this presentation, I will, like to focus on China-African relations in economic field with a view to identifying some of the opportunities and challenges Africa may face as China develops a new type of partnership featuring economic win-win cooperation. This is particularly important if the ascendancy of China onto the world stage is to assist in transforming Africa which, in this context, implies putting Africa firmly on the path of sustainable economic growth and development.

In economic field China intends to contribute to enhancing all round cooperation between China and Africa primarily through trade, investment and aid which encompasses debt forgiveness, concessional loan and grants. Accordingly, the rest of this presentation is organized as follows. In the next three sections, the opportunities and challenges of China-Africa relations in the areas of trade, investment and aid are presented in turns. The presentation is concluded by a brief statement of the effort of the African Economic Research Consortium to get the African researchers and policy makers to respond the phenomena of China and India and their impact on Africa in the short, medium and long term as well as under plausible scenarios that may emerge. It is our believe that the work of this Task Force and the outputs of our research endeavour will provide useful guide to the design of a partnership arrangements likely to ensure that China actually lends assistance to the transformation and development process as advocated by His Excellency, President Kiwete in dynamic and evolving global context.

II. Opportunities and Challenges of China-Africa Trade Partnership

II.1 Volume and Structure of China's Trade with Africa

In identifying the opportunities and challenges presented by China-African trade relations, it should be instrumental to consider its volume and structure. Beginning with the volume, trade with Africa constitutes only about 3% of China's global trade but it has been growing quite phenomenally. For example, in 1995, total trade with China was only $4billion. By 2005, it has reached $40 billion (China Monitor, May 2006). China is therefore catching up with, and in some cases surpassing, Africa's traditional trading partners, especially the former colonial powers. China is currently Africa's third largest commercial partner after the US and

France. Furthermore, it is the second largest exporter to Africa after France and is ahead of Britain in both categories (China Monitor, May 2006). Evidently, although Africa may not account for a large proportion of trade with China, China accounts for a large proportion of Africa's global trade.

Table 1. Trade volume between China and selected African countries.

Country	Beg year	Value (million $ US)	End Year	Value (million $ US)	% Change
Angola	1996	272.28	2006	11 825.25	4 243.05
Cameroon	1999	84.20	2005	213.00	152.97
Cote d'Ivoire	2001	81.41	2006	358.03	339.79
Ghana	2000	121.94	2006	531.37	335.76
Guinea	2000	34.04	2006	187.77	451.62
Kenya	2004	212.07	2006	481.17	97.18
Madagascar	1999	68.04	2006	333.36	389.95
Mali	2000	56.31	2006	121.12	115.09
Mauritius	2000	17.00	2006	320.18	1 783.41
Namibia	2000	6.64	2006	141.68	2 033.73
Nigeria	2000	560.00	2005	2 827.70	404.95
South Africa	1995	770.00	2006	8 700	1 029.87
Sudan	2000	898.98	2005	4 810	435.05
Zimbabwe	2000	127.10	2006	267.80	110.7

It should also be noted that like it is with other parts of the world, China maintains a trade deficit with several African countries. Although African exports to China totalled about US$16 billion in 2004, while Chinese imports reached about US$14 billion (Shinn, 2005), this overall African trade surplus is highly misleading. Oil exporters such as Algeria, Angola, and Sudan had huge trade surpluses with China, while virtually every other country had a deficit (Lyakurwa, 2006). The governments in many of the other African countries are deeply concerned by the sizeable trade deficits. To counter this problem, China agreed in 2005 to exempt from tariffs 190 commodities from 25 least developed African countries. China also approved 16 African countries, including Ethiopia, Kenya, Uganda, and Zimbabwe, as destinations for Chinese tourists. This pushed the number of Africa's Chinese tourists to 110,000 in 2005, a 100% increase over 2004, according to Chinese government figures (Eisenman and Kurlantzick, 2006) and it is expected to ameliorate trade imbalances and contribute to these countries' economic growth. These initiatives must have contributed to a reduction in trade deficit from over $ 2 billion in 2004 to around $ 900 million by 2005 (China Monitor, August, 2006).

Turning to the structure of trade, Sub-Saharan Africa (SSA) is a major producer of many of the world's most important minerals and metals, including platinum-group metals (PGMs), gold, diamonds, uranium, manganese, chromium, nickel, bauxite (aluminium raw material) and cobalt – not to mention petroleum and gas. There are substantial mining industries in numerous African countries. Democratic Republic of Congo (DRC), Ghana, Namibia, Nigeria, South Africa, Tanzania and Zimbabwe are the largest mineral and metal producers in SSA, and there are many smaller-scale producers (e.g., Botswana, Mozambique, Namibia and Sierra Leone) (Lyakurwa, 2006).

Exports from African countries to China have been predominantly of extractive industries products – minerals, petroleum, metals and timber – while China has been exporting finished goods ranging from machinery and equipment to vehicles, textiles, clothing and consumer electronics. In essence, Africa is primarily as source of crude materials and also a market for Chinese finished goods. For example, Sudan is a major oil supplier to China, currently accounting for 7.7% of Chinese total oil imports. Also, China has become the third major purchaser of oil from Gabon, after the United States and France, and trade relations between the two countries are expanding. For example, over 60% of Gabon's timber is exported to Asia, mainly to China.

While China has become a major market for Africa's exports, its importance varies across countries. As can be seen from Table 1, China is extremely important for Sudan and Angola both in terms of the share and growth while it is less so for Botswana, Kenya and Uganda. The indication is that there is nothing universal about the character of China-Africa trade. Accordingly, the nature and significance of the opportunities and challenges will vary across countries requiring nuanced partnership arrangements between individual African countries and China.

A look at Table 2 showing the composition GDP between 1990 and 2004 will reveal that during this period, Chinese economy has witnessed logical transformation from being a producer of crude materials towards being producers of knowledge intensive goods and services as reflected in the declining share of agriculture and mineral products and phenomenal increase in the share of service sector in total gdp. In the case of Africa, while the shares of crude materials and manufacturing sectors have declined, that of services increased significantly. The indication is that the growing services sector in Africa is largely in support of its export of crude materials and imports of finished goods and services. It should be mentioned, however, that South Africa is probably the only SSA country that shows signs of transformations similar to those of China between 1990 and 2004 (see Table 2). What is generally true, therefore, is that African countries are essentially exporters of crude materials be it mineral or agricultural products (because that is what they specialize in) and importers of transformed goods and services which is what all of its trading partners specialize in.

Table 1: Share of Exports of 21 African Countries to China, 2003

	Country	Share of Exports to China, 2003	Rank	Growth of Exports to China (1998-2003)*	Rank
1	Angola	23.2%	2	53.7%	2
2	Botswana	0.1%	17	0.1%	17
3	Cameroon	4.4%	5	4.0%	7
4	Dr Congo	2.2%	10	2.2%	10
5	Ethiopia	0.7%	14	0.6%	15
6	Ghana	1.6%	12	1.3%	13
7	Kenya	0.3%	16	.03%	18
8	Mozambique	2.3%	9	9.9	3
9	Namibia	2.9%	7	2.4%	9
10	Nigeria	0.5%	15	0.9%	14
11	Rwanda	4.2%	6	4.4%	6
12	Senegal	1.4%	13	1.5%	11
13	Somalia	5.6%	3	4.7%	5
14	South Africa	4.6%	4	5.6%	4
15	Sudan	40.9%	1	196.8%	1
16	Tanzania	2.6%	8	3.9%	8
17	Uganda	0.0%	18	0.2%	16

18	Zambia	1.7%	11	1.5%	12

Source: DFID (May 2005).

Table 2: Structure of Africa and China GDP, 1990 and 2004

		Agriculture	Other Industry*	Manufacturing	Services	Total
China	1990	27	9	33	31	100
	2004	13	10	36	41	100
South Africa	1990	5	16	24	55	
	2004	3	12	20	65	
Africa	1990	20	16	17	47	100
	2004	16	17	15	52	100

* Covers mining, construction, electricity, water and gas (ISIC 10-14 and 38-45)
Source: World Development Indicators, 2006

Another attribute of Africa's exports, especially the mining product exports, is that they are typically enclaves. This is a major contributor to the paradox of growth in gdp and deepening poverty in Africa. Unless the China-Africa partnership in trade results in strengthening the backward and forward linkages linkage between the export sectors and the rest of the economy, there may be no perceptible change in the paradox. In that case, the ascendancy of China-Africa trade relations will produce the same effect as those of its traditional trading partners and the economic win-win cooperation intended in the China Africa Policy will remain a mirage. As a result, most African countries will continue to have highly unequal income distribution and any growth generated by export expansion is likely to have little impact on the poor (DFID, 2005).

II.2 Opportunities and Challenges of Sino-African Trade

Perhaps the major opportunity provided by the rising profile of China in world trade is the arrival of ***another round of commodity booms*** occasioned by the increased demand for mineral products and agricultural raw materials. While it is true that the on-going commodity boom cannot be attributed entirely to the rising profile of China in the world economy, it cannot be denied that it at least intensified it. Other contributors to the prevailing commodity boom include the security situation in the Middle East, the sustained growth in OECD countries and the emergence of other additional impetus to global demand for raw materials by the equally phenomenal growth of India (9.3%), Venezuela (9%) Argentina 8%) and Singapore (8%), The influence of these high performing emerging markets is that they also contribute to the demand for the raw materials in which Africa specializes. The associated inflow of foreign exchange induced by the boom is a potential advantage. An increase in oil, mineral and other raw material prices currently being witnessed directly increases real national income. The external current account of oil producing SSA countries swung from an average deficit about 3.4% of GDP in 2003 to a surplus of 2.3% in 2004 and to a further surplus of 18% of GDP in 2005

Another advantage is the possibility that ***the current commodity boom may persist longer than the previous ones*** as it is unlikely that all of the contributory factors will subside at the same time. Moreover, the intensity of the boom may rise as the growth of emerging market economies, including South Africa, may not only persist but increased. Finally, the emergence of China as a donor country may create the much desired policy space for African countries to pursue what China referred to as independent choice of the road of development (China's Africa Policy, 2006, Part III). In essence, the ascendancy of China and other emerging market economies of the south and the associated increased demand for and prices of their raw materials are offering majority of the African countries another chance to develop. For example, between 1992 and 2002, China's steel consumption rose by 20% while the global average was 4%. Mineral ores like nickel and copper, essential to the electrical and electronics industries, have risen considerably since 2001. In 2005 the price of nickel on the London spot market was 16,255 euros per ton as compared with 3,725 in December 1998 (Lafargue, 2005).

African governments are, therefore, faced with the challenge of transforming this potential advantage to a reality. If African governments allow a repeat of the Dutch disease syndrome that characterized earlier booms, then the opportunity may be frittered away like previous ones. If African governments misinterprets the freedom to independently choose their development paths to mean licence to continue squandering their resources on white elephant projects and stashing them away in foreign banks, then the outcome will be even more tragic and African development may be deferred for a very long time to come. Opportunities do not knock several times or in quick successions.

Imports from China also presents its own opportunities and challenges. One of the opportunities provided by Chinese imports is their ***low prices and hence affordability***, especially by the poor. Generally, some Chinese imports can be 75% cheaper than 'equivalent' imports from traditional sources and up to 50% cheaper than the locally produced substitutes. In a continent with weak purchasing power and high level of deprivations and poverty, this could be an opportunity to improve the livelihoods of the poor. Moreover, it can be argued that competition from Chinese imports may discourage extraction of super-normal profits from poor African consumers by the traditional trading partners and local producers many of who collude and pursue predatory business practices. It can also encourage the producers of local substitutes to be more efficient and pass on the benefits of such efficiency to the consumers more readily.

Finally, Chinese imports, especially in small African economies, can create a ***more enabling macroeconomic environment***. Cheap imports of consumer goods that feature prominently in the consumer expenditure can help in reducing inflationary pressure. It may also contribute to higher revenue inflow if the total volume of imports is enlarged. It is also certain that revenues accruing from imports will, directly and/or indirectly, and *ceteris paribus*, result in improvement in government fiscal posture and reduce pressure on the monetary authorities to finance budget deficits.

The challenges include assurance that the Chinese imports meet the various quality and safety standards. Another is the ***risk of emergence of Chinese monopolies*** in the medium to long term after which they may also embark on collusive and predatory business practices as well as extraction of monopoly rents just like the current operators. This is especially the case since majority of the Chinese enterprises are still state-owned or are closely tied to the central government or the various provincial governments and can be part of the global strategy of the Chinese state.

Possibly more daunting is the challenge posed by cheap Chinese imports the already eroded industrial of many African countries. Specifically, if, as is already the case in South Africa and Nigeria, for example, Chinese imports are resulting in factory closures and the inevitable job and income losses, ***Chinese imports may intensify the de-industrialization process*** initiated by the liberalization policies embedded in the Structural Adjustment Programmes (SAP). See Wilson III, (2005), Shin, (2005) and Kaplinsky, et.al, (2006) for experiences of specific examples of how these situations have arisen in specific African countries.

Perhaps more fundamental challenge is the fact that ***cheap Chinese imports may actually discourage diversification of the productive based of these African economies away from crude agricultural and mineral products towards manufacturing and eventually service or knowledge intensive activities***. This is a real challenge because new investors may either find it unattractive to compete with cheap Chinese imports or find it unnecessary because Chinese imports are so large leaving no significant excess demand which new entrants can aspire to meet. In that case, instead of Sino-African trade partnership lending assistance to the transformation and development process in Africa, it will actually truncate it. This along with the de-industrialization effects of cheap Chinese imports will indeed reverse the gains of industrial development made during the fist two decades of independence in Africa.

Africa has experienced more violent conflict over the last four decades than any other continent. These conflicts have predominantly been in countries like Angola, DRC, Sierra Leone and Sudan that are endowed with immense natural resources including oil and minerals. The main source of conflicts has primarily been over how to control these resources. Peace and stability are beginning to prevail in many countries, although in some – like Sudan – violent conflict is still the biggest single obstacle to development. Oil revenues earned from China's trade partnership with some of these governments may also be used to prop up dictators, obstruct transparency in commercial transactions and fuel conflicts and human rights abuses in Africa (Lyakurwa, 2006). These conflicts often plunge the poor into deeper poverty. The challenge is for the African rulers to prevent escalation of conflicts and socio-political instability. The instrumentality of the African Peer Review Mechanism (APRM) in this regards cannot be over-emphasized.

Foreign companies involved in oil, minerals and other extractive industries must make their payments more open to public scrutiny. Oil and mineral exporting African countries should continue to enforce the rule of law and reduce corruption and rent-seeking activities so that revenues from oil and minerals can contribute to economic growth. This has been the route of countries like Botswana that have implemented such policies and have experienced economic development, growth and reduction in poverty (Olomola, 2005). The challenge is for African rulers to insist on these foreign companies subscribing to the Extractive Industries Transparency Initiative (EITI) as a precondition for granting mining concessions.

III. Opportunities and Challenges of Sino-African Investment Partnership

III.1 Volume of Chinese FDI in Africa

It has been mentioned that China is now next to Japan in terms of foreign reserve holdings. As at June, 2006, China's foreign reserve holding has reached $941.1 billion which is 15% higher than $818.9 billion attained by the end of 2004. Accordingly, China has the wherewithal to pursue its aggressive foreign investment drive. In 2003, therefore, China was the fifth largest investor in the world, after the United States, Germany, the United Kingdom and France. Its overseas investments totalled US$2.087 billion, which represented an increase of 112% over the amount for 2002, and gave it an active presence in 160 countries. China is investing massively in raw material deposits overseas, and is multiplying its trading partnerships in order to secure regular supplies (Lafargue, 2005). In 2005, it was estimated that the cumulative value of Chinese investment in Africa was US$4.5 billion, which was over 12% of total FDI stock of US$37 billion in Africa (China Monitor, May 2006).

III.2 Features of Chinese FDI in Africa

A feature of Chinese investment in Africa is its concentration in a few sectors that are of strategic interest to China, especially in the extractive industries. Chinese firms have invested billions of dollars in foreign exchange and used Chinese engineering and construction resources on infrastructure for developing ***oil, gas, minerals and other natural resources in several African countries***. For example, in 2002 Sinopec, a Chinese oil company, signed a 420 million euro contract to develop the Zarzaitine oilfield in the Sahara (Wilson, 2005). At the same time, China is increasing its presence in exploration and/or exploitation of oil and other mineral products all over Africa. By far the largest proportion of China's foreign direct investment in Africa is in the oil sector followed by other sold minerals. A relatively small proportion are in manufacturing sector, especially, agroprocessing, pharmaceutical and telecommunications sectors. For example, Chinese pharmaceutical company is currently producing a new anti-malaria medicine in Uganda and another Chinese firm was recently awarded contracts worth US$400 million for servicing mobile phone networks in Kenya, Nigeria and Zimbabwe (Wilson, 2005).

Another feature of China's investment in Africa, as elsewhere in the world is that they are carried out largely by state-owned enterprises or joint ventures. They also typically partner with state-owned enterprises or enterprises with significant government equity holding in the host countries. According to Martyn Davies (2006), there are now over 800 Chinese enterprises operating in Africa as at August, 2006. At least 674 or 84.25% of them are state-owned enterprises (SOEs). A Chinese pharmaceutical company is currently producing a new anti-malaria medicine in Uganda and another Chinese firm was recently awarded contracts worth US$400 million for servicing mobile phone networks in Kenya, Nigeria and Zimbabwe (Wilson, 2005).

Sino-Africa investment relations are generally uni-directional, with South Africa as the only exception as a few of the South African Companies are also wining contracts in China. A recent example is the South African Baterman Engineering that won a $4million contract to supply in Yunnan province. Another is South Africa's SASOL that is involved in a $10billion deal designed to diversify China's petroleum resources. Yet another is a joint venture between China and south Africa on neuclea technology.

It can, therefore, be concluded that Chinese direct investment in Africa is driven primarily by the need to secure key commodity and energy assets as well as capturing under tapped markets (China Monitor, August, 2006). In short, Chinese FDI are primarily resource seeking and secondarily market seeking. In contrast, Chinese investment in OECD countries are primarily market seeking, in which case, they go into strategic partnership with enterprises in the host countries. Chinese FDI in Africa is also typically accompanied by Chinese workers and most of the supplies are sourced directly from China. This is not universally the case. For example, in response to complains by Nigeria and South Africa, the Chinese Ministry of Commerce has encouraged its companies to increase investment spending in developing countries, aiding technology development and personnel training. Specifically, in response tot complains by Nigeria's Minister of Science and Technology, Huwawai Technologies Nigeria Limited, a Chinese FDI has established a training centre in Nigeria to train 2000 telecoms engineers annually. Finally, China has a way of extracting extremely generous terms for its investment outside the resource seeking activities. For example, Nigeria offered incentives including no expatriate quota, full repatriation of capital and profits in addition to other generous incentives. (China Monitor, April, 2006).

III.3 Opportunities and Challenges of Chinese FDI in Africa

Perhaps the most important opportunity offered by Chinese FDI in Africa is the ***increase in investment in transformation activities***. It is also evident that China can be very responsive to the complaints by Africa. Witness the various positive responses to Africa's concern on textiles, adverse balance of trade and Nigeria's complaint over the lack of technological and human resources development impact of Chinese telecoms investment in the country. There are, therefore, indications that China is likely to respond positively to complaints by African about the development impact of its investment activities in the continent. However, there have been few and limited complainants, South Africa and Nigeria being the possible exceptions. This might be a reflection of limited capacity of African countries to develop partnerships with Chinese FDI. ***The challenge, therefore, is for African countries to invest the inflow of resources from the commodity booms in improving investment climate, developing human resources necessary to support investment in new industries and establish development banks necessary to provide financial support to nascent private investors***. In this connection, there must be good and transparent governance while implementing these initiatives in order to ensure that the desired outcomes are realized. Successful implementation of these initiatives under good governance will create necessary conditions for Chinese FDI to have significant backward and forward linkages in the host economies. Needless to say, careful monitoring and evaluation processes, including requisite research must be carried out regularly to ensure that Chinese and, indeed, FDI from other sources and in any sector are beneficial to the host countries.

IV Opportunities and Challenges of China's Aid in Africa

IV.1 Nature and Purposes of Chinese Aid in Africa

Chinese Aid, like its investment in Africa, are designed primarily to secure commodity and mineral resource assets. A large proportion of it goes to infrastructure rehabilitation and development of new ones. In several countries, Chinese aid goes to building of sports stadiums, presidential palaces, government ministries, hospitals and school buildings. Also like its FDI, the construction work is carried out mainly by Chinese workers and the supplies are sourced directly from China. A large proportion of the Chinese Aids are in the form of grants. The loan components tend to be in the form of long-term low interest (sometimes zero interest) loans. In other words, Chinese Aid are essentially another window of IDA type development assistance. A considerable part of the loans is used to finance acquisition of military hardware in a number of instances but in others, they are used to finance infrastructural projects such as rail and road.

IV.2. Opportunities and Challenges of Chinese Aid in Africa

A major opportunity provided by Chinese aid in Africa is the similarity of its terms to the IDA loan facilities without policy conditionality. In place of the usual policy conditionality, China requires the observance of the one-China policy. Therefore, countries that want to benefit from Chinese aid must be prepared to severe diplomatic ties with Taiwan.

A challenge is the practice of almost exclusive reliance on Chinese workers and supplies in the construction activities implicit in the aid. This also implies that there will be limited technological development and there may be difficulty in maintenance of the assets in the medium to long term which is quite sub-optimal. Perhaps a greater challenge is the tendency for the infrastructure being developed with these aid packages are really designed to support export activities rather than internal production activities and intra-African trade. Accordingly, the much desired impact of infrastructure on improving efficiency and competitiveness of domestic production as well as supporting market consolidation may not be forthcoming. It must be acknowledged, however, that China has expressed the desire to work with regional economic grouping, the NEPAD and regional development banks. It is, therefore, the responsibility of African governments to ensure that these regional organizations are properly positioned to take advantage of this positive disposition. It is equally important for these organizations to be empowered to develop and promote regional integration projects and propose them to China for support.

V. Conclusion

In conclusion, it must be acknowledged that the phenomenon of China in the global arena is quite significant. It presents opportunities and challenges which African policy makers and thinkers must take very seriously and respond to it very intensively. This is particularly so as other regions of the world, not the least the OECD countries, Asian and Latin American countries are already responding to this phenomenon.

In this regard, the African Economic Research Consortium is embarking on an in-depth research on Impact of China and India on Africa. Already, a planning meeting has been held in Nairobi on July 6, 2006. An outcome of the meeting was the identification of the key issues and sectors of concern. The research team will focus on detailed analysis of the likely direct and indirect impact of China and India on Africa in the short, medium and long terms under alternative but plausible scenarios. Background papers in the areas of petroleum, other solid minerals, agriculture, manufacturing, infrastructure and governance are being finalized. These papers will be deliberated upon in Addis Ababa on October 9-10. Thereafter, senior African scholars will prepare a synthesis paper which will be presented at a global meeting of researchers and policy makers to be held later in the year. Policy makers and other stakeholders will be invited of join us in setting the research agenda and continue to participate in the research review meetings that will follow. It is our hope that this effort will provide useful input into the activities of this important and timely Task Force.

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