

## Will China's Reforms Impact FOCAC?

Yazini April<sup>1</sup>

The year of 2014 could be viewed as China's year of reforms. In 2015, the country's top leaders stressed their determination to remodel China's development from a development model that values quantity and speed to one that prizes quality and efficiency. China is experiencing a slowing economy, recording its lowest growth rate in nearly 25 years. The government has now rolled out several reforms introducing fiscal and monetary measures to steady economic growth. These include boosting investment in railways and social housing, and cutting the reserve requirement ratio (RRR) for banks that lend to the agricultural sector. The reforms are also administrative in nature, cutting down bureaucracy and increasing the focus on the country's anti-corruption campaign.

As Beijing carries out a delicate rebalancing act to wean the economy off its heavy reliance on investment and exports, on the one hand, and promote the rule of law, on the other, this paper examines what the reforms mean for the Forum on China-Africa Co-operation (FOCAC). Strong growth in trade between China and Africa has promoted economic interdependence and greatly benefited the two regions. This paper argues that while Africa's economic growth could be strongly impacted by China's reform measures, they may be the required push for the continent to diversify and decrease its dependence on natural resources.

### Introduction

At the 2015 World Economic Forum held in Davos, Switzerland, Chinese Premier Li Keqiang outlined China's key reform measures, which, among other things, included structural reform and reform of the country's administrative system. The fact is, China has already undertaken a few structural reforms such as extending value-added tax to services, freeing up capital flows, reducing red tape and strengthening land rights. As a result of

these reforms, China's economic outlook could be labelled as being relatively positive. However, it must be noted that despite this positive outlook, the country's economy grew at 7,4 per cent in 2014, its slowest rate since 1990, with the annual growth rate in the fourth quarter of the year being just above six per cent.<sup>1</sup> The significant question for this paper is, what do China's reforms mean for Africa – particularly as, over the past decade,

1. Yazini April is a Research Specialist in the Governance and Security Programme, Africa Institute of South Africa in the Human Sciences Research Council.

trade between China and Africa has increased by 5,6 per cent year on year to hit \$201 billion in 2013, and is expected to hit \$280 billion by 2015?<sup>2</sup> Furthermore, does too much of Africa's recent prosperity depend on China's own continued prosperity and rapid growth?<sup>3</sup>

Judging from Premier Li Keqiang's Davos speech, reform in the Chinese context means China will continue to abolish, or delegate to lower-level government, items previously subject to State Council review and approval. Moreover, China will comprehensively address items requiring non-governmental review and approval, and put in place a negative-list approach towards market access. According to the Chinese government, this will incentivise market players and help reduce the possibility of rent seeking and corruption.<sup>4</sup> China will also protect intellectual property rights in accordance with the law and do its best to foster an environment that encourages entrepreneurship.<sup>5</sup>

According to Xu Songtao, reforms in China are nothing new, as the government has been moving along with the country's economic and political reform process for decades. Xu argues that the policy of reform and opening up to the outside world began as early as the 1980s. Gradually, a market economy was established, with public ownership playing a supportive role while other economic components developed. This economic transition, of course, required administrative reform.<sup>6</sup> It is also important to note that the Third Plenum of the Eighteenth Party Congress, held in November 2013, called for an acceleration of China's administrative reform by building a law-based and service-oriented government.<sup>7</sup> More specifically, it demanded deepening reforms of the administrative system, innovative administrative methods and an enhancement of government credibility and execution. Then, during the fourth plenary session, held in October 2014, the rule of law – refined the direction of administrative reform even further.<sup>8</sup> In essence, China's administrative reforms are in line with similar reforms carried out in many other advanced countries. The goals of such reforms are to use scientific management to improve efficiency, to wage war on wasteful spending, to standardise administrative procedures in order to make them fair and open, and to structure and limit administrative power to prevent corruption and reduce bureaucratic red tape. Returning power to the people and strengthening governance are at the heart of these reforms.<sup>9</sup>

Strengthening governance through the rule of law is a transformative process that Chinese President Xi Jinping has also undertaken. In his book, *The Chinese Dream of the Great Rejuvenation of the Chinese Nation*, Xi states that during more than 30 years of reform and opening up, China has achieved substantial progress in economic and social development – something which is good for both China and the world.<sup>10</sup> Xi further maintains that through effective reforms, China will be better able to assume more international responsibilities and obligations within its capacity and make greater contributions to world peace and development, which again begs the question of what the impact of China's reforms will be on the African continent. In other words, what do the aforementioned reform measures by the Chinese government really mean for Africa?

### Assessment of the Impact of Reforms

Firstly, due to its reforms and the opening up of the country that began decades ago, China's economic rise has contributed significantly to the concept of Africa's rising. The extraordinary growth of China's economic interests in Africa is one of the most important trends in the continent's history since the end of the Cold War. Beyond setting the benchmark, China has become sub-Saharan Africa's largest single trading partner, with a 17 per cent share of total trade. In comparison, India has a six per cent share and Brazil, a three per cent share. The so-called Group of Five (Indonesia, Malaysia, Saudi Arabia, Thailand and the United Arab Emirates) accounts for only five per cent of sub-Saharan Africa's total trade.<sup>11</sup> China-Africa trade passed US\$1 billion in 1990, rising to US\$10 billion in 2000 and then increasing 15-fold in little over a decade to US\$150 billion in 2011, surpassing the United States as Africa's largest trading partner in 2009. In 2012, this figure rose to US\$198 billion, with some analysts now predicting that it will rise to US\$385 billion by 2015.<sup>12</sup> To put this into further perspective, trade between China and Africa amounted to US\$108.9 billion in 2012.<sup>13</sup>

China also accounts for 16 per cent of total foreign direct investment into sub-Saharan Africa and has become a key investor and provider of aid. There is no doubt that China is interested in Africa's natural resources (such as copper in Zambia and oil in Nigeria and Sudan), but it is expanding its focus. Over 2 000 Chinese enterprises are investing and developing in

more than 50 African countries, and South Africa is the leading recipient of Chinese foreign direct investment. Amadou argues that the key advantage of having China in Africa is speed. Chinese firms are able to deliver quickly and work in close coordination with their financial and other national partners. Speed is a big comparative advantage in Africa. For instance, the continent has large infrastructure needs, and African policymakers are under pressure to deliver.<sup>14</sup>

It is on the basis of the aforementioned trade figures that Rotberg argues how China's economic weakening, even if marginally, would not be good for Africa. The impact of China's domestic economic growth is especially evident when it comes to resource-rich African countries – in particular oil exporters. For the top-five resource-rich countries ranked by exports to China as a share of GDP, namely Angola, South Africa, the Republic of Congo, Equatorial Guinea, and the Democratic Republic of the Congo, an increase of one percentage point in China's domestic investment growth equates to a 0.8 percentage point increase in their export growth rate.<sup>15</sup> These are some of the countries that are likely to be hit hard if austerity measures and cutbacks were to be introduced in China.<sup>16</sup>

China's structural adjustment reforms could be viewed as a wake-up call for African countries to reduce their dependency on natural resources. In the past decade, commodities accounted for only a quarter to a third of African growth, depending on one's measure; most of Africa's \$38bn net foreign direct investment inflows in 2012 were into extractive industries.<sup>17</sup> By not developing a manufacturing sector, the world's poorest continent has effectively missed out on the type of industrial revolution that has powered China's rise. The fact is, African countries, unlike East Asian countries, have not yet been able to turn their farmers into manufacturing workers, diversify their economies and export a range of increasingly sophisticated goods.<sup>18</sup> This has left the continent vulnerable to a sharp slowdown as the global commodities boom now looks to be faltering. The only way out of this commodity trap is for the continent to diversify. Economic diversification based on high competitiveness, supported by specialist expertise, skills and technology transfer, could be the main contribution that China makes to Africa's economic transformation in the global marketplace.<sup>19</sup>

The second effect of China's economic reforms comes in the form of the industrial projects that have been implemented on the continent.

China has changed the landscape of resource governance and industrial development through its infrastructure-for-minerals swap initiatives on the continent. China's mining and infrastructure development programmes in Africa mushroomed after the establishment of FOCAC in 2000. Ever since FOCAC, Chinese firms have been trailblazing across the continent; there are now over 800 Chinese state-owned enterprises (SOEs) present in Africa, mostly in the extractive industries. In addition, China has committed a 20 billion US dollar credit line to Africa in the form of increased investment in Africa's agriculture, agro-processing and manufacturing industries. This credit line should contribute to helping Africa achieve food security, raise added value from its exports, boost employment and realise sustainable and inclusive development. Examples of infrastructure development include the Lagos-Kano railway line, which boasts a 2 600MW hydroelectric central worth US\$8.3 billion.<sup>20</sup> In Algeria, a 1 000km freeway has been established,<sup>21</sup> and in Guinea, China's Exim Bank has offered the Guinea bauxite/aluminium industry an industrial package comprising one mine, one dam, one hydroelectric central, one railway and one refinery, with repayment taking the form of China being allowed to purchase alumina at a preferential price.<sup>22</sup>

Moreover, since 2007 China has been involved in the financing of 10 major dams in nine different African countries. The total cost of these projects is estimated to be more than US\$5 billion, of which Chinese banks financed over US\$3.3 billion.<sup>23</sup> China has also been active in building roads across Africa. World Bank data records 18-plus projects involving Chinese commitments for the construction and rehabilitation of more than 1 400 kilometres of road. As regards the African rail sector, China has made a major comeback with financing commitments in the order of US\$4 billion for this sector.<sup>24</sup> These include the rehabilitation of more than 1 350 kilometres of existing railway lines and the construction of more than 1 600 kilometres of new railroad. To put this in perspective, the entire African railroad network amounts to around 50 000 kilometres.<sup>25</sup> Most of the industrial projects China has implemented over the past decade include substantial contributions to the provision of 'hard infrastructure' such as roads, railways and hydropower projects which are critical for economic growth and development on the continent. Needless to say, China's economic reforms in the past decades have had a positive impact on the African continent's industrial growth.

Thirdly, from an administrative perspective, it is highly unlikely that China's reforms will have a negative impact on Africa. Some scholars argue that Xi Jinping's anti-corruption drive could destroy rents, and therefore some of the incentives for industrial and service expansion. This article argues that, on the contrary, China's anti-corruption drive and other governance reform measures serve as a good example to African countries. It is no secret that corruption is one of the leading causes of poor growth on the continent. Corruption is endemic in many of Africa's most resource-rich countries. Rather than invest resource revenues into infrastructure and education, crooked politicians, often in collusion with the companies mining the resources, siphon proceeds from the continent's mineral and petroleum wealth into their own pockets.

The fact is, resource-rich countries are plagued by a phenomenon called 'Dutch disease'. This illness afflicts both well-governed and poorly governed countries, but the former have more ways of allaying the consequences. For example, the Democratic Republic of Congo has the highest total resource rents as a percentage of GDP in Africa (64 per cent) and one of the lowest scores for the control of corruption. Equatorial Guinea, with a government that is widely seen as being autocratic, has the worst score for control of corruption among African countries. It also has very high resource rents as a share of GDP at 47 per cent.<sup>26</sup> While China's reform plans in respect of anti-corruption speak to domestic matters and thus do not guarantee legislative reciprocity on the African side, FOCAC could be used as a platform to address the Dutch disease syndrome, which could produce a win-win situation for both sides. A discussion on possible collaboration regarding China's administrative reforms, with possible linkages to Africa, could be to the continent's benefit, as Africa cannot develop effectively without addressing the scourge of corruption. In the wake of the FOCAC Summit VI that was recently held in South Africa, it is imperative that the African Union (AU) and the Chinese government should include administrative reforms as part of FOCAC's measures.

It deserves mention that the AU has indeed designed its Africa Mining Vision to address corruption, but it is not clear how the continent intends to implement the required reform measures to address global uncertainties. The fact is that many anti-corruption crackdowns by African governments have purely been public relations exercises. Agenda 2063, which is now

the AU's blueprint for the future, will never materialise unless African countries implement strong governance and reform measures that promote state legitimacy. The continent can benefit administratively and otherwise from reforms if, like China, it were to apply scientific principles in managing its business, industries and economies to improve efficiency by waging war on wasteful spending, and if it were to standardise administrative procedures aimed at preventing corruption and reducing bureaucratic red tape.

## Conclusion

In conclusion, China's reform measures would have a strong impact on the African continent if these measures were to keep China from continuing to do robust business on the continent. Under FOCAC, China and Africa have become closely interlinked in their global transactions. This is demonstrated by the recent announcement by China's President Xi Jinping that his country will provide \$60 billion in aid to Africa to support agriculture, infrastructure and training on the continent.<sup>27</sup> However, as Caulderwood states, the depth of this integration with its high levels of infrastructure and mining investment could be a double-edged sword. It is critical for Africa to be cautious and take time to analyse the implications and real benefits of China's Africa policy in light of that country's reforms. After all, China is advancing global ambitions that are not necessarily tied to Africa's development. China's global ambitions have resulted in a rapidly accelerating flow of African commodities to the People's Republic.<sup>28</sup> Therefore, the onus is on African governments to establish their own policies that represent the continent's interests. This paper recommends that African governments should consider the following strategies in pursuing economic ties with China:

- a. Given China's economic and infrastructural impact on the continent, the latter should not only determine what China's structural adjustment reforms mean for Africa's rising; it should ensure that the AU's reform packages as couched in documents such as Agenda 2063 are able to address the impact of China's reforms.
- b. Infrastructure spending in Africa is estimated to amount to \$96 billion per year, and tax revenues and other domestic resources are not enough to fill the financing gap for new

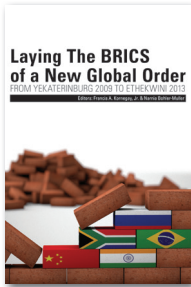
projects. In essence, Africa needs partners like China to carry out large infrastructure projects on the continent; but it is essential to assess whether the resource-for-infrastructure exchange model implemented by the Chinese will be beneficial to the continent in the long term.

- c. In regard to China's structural adjustment reforms, it should be a key priority for Africa to diversify its economic and export base. Despite having large supplies of raw materials, Africa's development prospects are constrained by its heavy reliance on the primary sector as the dominant element in its economies. This situation is compounded by a distorted international system that facilitates the export of raw materials but inhibits and restricts the trade in processed goods from Africa. So far, Africa does not show any meaningful deviation from this well-entrenched international practice, meaning it may be impacted by external reforms by countries such as China.
- d. Africa's bargaining power is limited by its lack of industrialisation and its dependence on primary products as its main source of export. The question therefore is whether the continent can really maximise itself under FOCAC 2015 and China's reforms.
- e. There is a need for a paradigm shift on the part of Africa's leadership within both the public and private sectors which encapsulates good governance reforms, thereby eliminating the Dutch Disease syndrome. Given that China is willing to off-shore some of its manufacturing to the continent, discussions at the recent FOCAC Summit were significant in ensuring that Africa's natural resources are no longer exploited but rather managed in a manner that contributes to mineral beneficiation and industrialisation.

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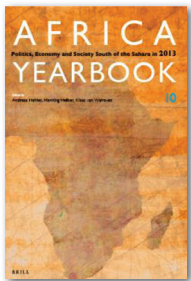
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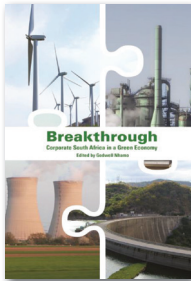
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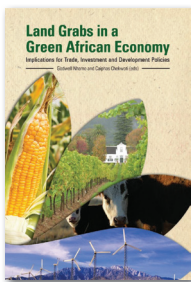
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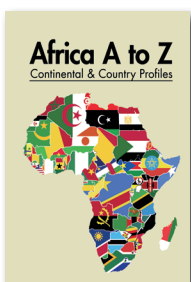
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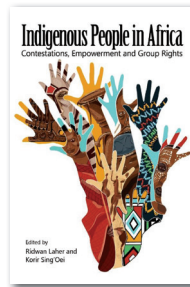
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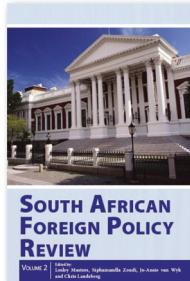
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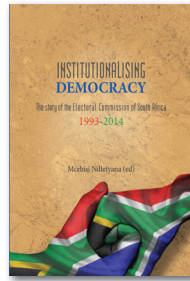
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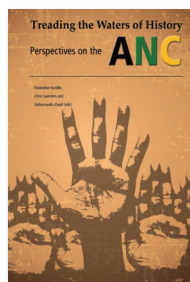
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