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A New China-Africa Financial, Investment & Business Partnership: Lessons for the international aid, investment and trade architecture

Abstract

African investment, trade and aid from the West are usually compartmentalized. In particular, after sixty years and $1 trillion spent, Western aid has turned out to be Africa's addiction rather than its salvation. Drawing on the latest empirical research, this Paper attempts to dissect the nature and composition of China's unique coordinated financial, investment, trade and aid strategy for Africa. It seeks to outline the strengths, weaknesses and opportunities of China's investment and trade flows, covering issues of governance, democracy and sustainable development. It attempts to showcase the growth of Chinese Small and Medium Sized Enterprises (SME) in Africa, weighing their impact on African integration, local economy and labour relations. Above all, it suggests innovative ways in which China's unique African engagement of public-private partnership can be better influenced and harnessed in the future by businesses worldwide, including the financial and investment sectors, as well as governments and civil societies, in response to the risks and opportunities of a changing Africa on the road to global economic recovery.

Key Words

Africa *(JEL 05 Economic Country Analysis: Africa); 019 Economic Linkages to Development-Role of International Organizations);* ***Ag. Econ, Natural Resource*** *(JEL Q32 – Exhaustive Resource and Economic Development)*

Introduction

While the West is still embroiled in the fallout from the financial crisis and other intractable challenges including the Middle East and Climate Change, a new paradigm shift is rapidly taking place with China's ubiquitous and burgeoning engagement with Africa. The vast majority of research and analyses to date tends to focus on detailing China's African footprint, highlighting worries that China seems intent on a new Scramble for Africa's resources with a no-holds-barred strategy, undercutting the West's efforts to bring about better governance, transparency, freedom and democracy. The usual questions are whether China's African engagement, though generally well received by resource-rich African countries, will be sustainable for Africa's social, political, economic and ecological development. Many remedies suggested are often predicated on traditional Western models of development aid.

African investment, trade and aid from the West are usually compartmentalized. In particular, after sixty years and $1 trillion spent, Western aid has turned out to be Africa's addiction rather than its salvation. Drawing on the latest empirical research, this Paper attempts to dissect the nature and composition of China's unique coordinated financial, investment, trade and aid strategy for Africa. It seeks to outline the strengths, weaknesses and opportunities of China's investment and trade flows, covering issues of governance, democracy and sustainable development. It attempts to showcase the growth of Chinese Small and Medium Sized Enterprises (SME) in Africa, weighing their impact on African integration, local economy and labour relations. Above all, it suggests innovative ways in which China's unique African engagement of public-private partnership can be better influenced and harnessed in the future by businesses worldwide, including the financial and investment sectors, as well as governments and civil societies, in response to the risks and opportunities of a changing Africa on the road to global economic recovery.

The sorry tale of aid

To consider whether and how China's African engagement offers any useful lessons, it is necessary to review some of the pitfalls in the history of African aid.

Dambisa Moyo, a former World Bank consultant and Goldman Sachs executive, provides an insightful glimpse of why aid has not worked in *Dead Aid* (1). Between 1946 and 1961, 75% of World Bank loans went to transportation and electricity infrastructural projects. During the Cold War, aid became a tool in the rivalry between Western capitalism and Russian communism, resulting in the support of unsavoury regimes by both sides. By 1965, African aid already reached $950 million. By the beginning of the 1970s, there was still not much aid-financed infrastructure to show for.

During the economic ravages of the 1970s oil crisis, the focus of aid shifted to immediate poverty relief and rural social services with the passage of the US International Development Food and Food Assistance Act. Much of the poverty-related aid took the form of concessionary loans which had to be paid back with interest. This later resulted in poverty-stricken countries struggling amidst their mountains of debt. Despite the aim of poverty alleviation, aid recipients saw their poverty levels jump and their growth rates plummet.

The second oil shock in 1979 resulted in a global tightening of monetary policy, which based most of the bank loans to developing countries on floating and rising interest rates. This eventually led to widespread third-world default. The remedy was 'program aid' under the Washington Consensus pursued by the Washington-DC based institutions – the IMF, the World Bank and the US Treasury. The aid strategy was based on '*stabilization'* through fiscal tightening and '*liberalization*' through market privatization. Free market alone gave the developing countries the opportunity to succeed but failed to equip them with the essential infrastructure to take advantage of the opportunities.

By the end of the 1980s, the developing world found itself mired in debt estimated to be at least $1 trillion. Between 1987 to 1989, mounting interest payments led to an absurd reverse cash flow from the poor to the developed countries to the tune of $15 billion a year. At the same time, the whole saga stank with corruption. This gave rise to the imposition of aid conditionality linked to governance reform and enhancement of democracy. The belief was that these medicines would deliver recipients from poverty and aid dependency. Yet in the absence of a functioning economy, elections and governance training proved to be no substitute for infrastructural capacity building. In some cases, aid continued to account for as much as 90% of disbursements between 1987 and 1996.

The 2000s saw the rise of glamour-aid, dating back to Bob Geldolf's Live Aid concert on 13 July 1985. Africa was said to remain 'a scar on the West's conscience'. Debt forgiveness was in vogue and more aid continued to flow.

Many studies have demonstrated that aid has not worked. Clemens et al (2004) sees no long-term impact of aid on growth. Hadjimichael (1995) and Reichal (1995) identify a negative relationship between savings and aid. Boone (1996) concludes that aid finances consumption rather than investment. After 60 years and over $1trillion of African aid, very few would say that aid has resulted in economic growth and human development, notwithstanding the 2005 Paris Declaration of Aid Effectiveness (2) and the imposition of conditionality. Not only is there not much good to show for, aid recipients have become much worse off. To Dambisa Moyo, aid is no longer part of the solution, nor is it just part of the problem. It is the problem.

In recent years, it has been well acknowledged that trade is better than aid. During his meeting with President Bush in 2003, Uganda's President Yoweri Museveni said, "I don't want aid; I want trade. Aid cannot transform society." In the wake of the collapse of the Doha Round of multilateral trade negotiations, the Aid for Trade (AFT) initiative has been endorsed by the World Trade Organization. However, a credible, AFT strategy has yet to emerge.

China's African engagement is a unique state-driven mixture of trade in resources, infrastructural investment, and some aid. At the Beijing Summit of the Forum on China- Africa Cooperation (FOCAC) in November 2006, leaders of 48 African countries including 41 heads of state gathered in praise of this new partnership. At the same time, however, the international community remains concerned about the true benefits of China's engagement. It is therefore instructive to analyze China's African strategy to see if there are lessons to be learnt, including the good, the bad and the ugly.

China’s African trade flows

Between 2003 and 2008, Sino-African trade increased from $18.6 billion to US$ 106.8 billion, a 474 % increase. 88% of China’s exports to Africa consisted of manufactured goods, including textiles and footware (36%), machinery and transportation equipment (33%), manufactured materials (18%), and processed food and beverages (1%). 86% of Africa’s exports to China, however, were largely natural commodities: oil and gas (62%), ores and metals (17%), and agricultural raw materials (7%). Most of Africa’s exports to China, therefore, do not lend themselves to upgrading of knowledge and skills.

Moreover, there is a high concentration of trade represented by the top five African countries. Between 2006 – 2008, Angola, South Africa, Sudan, Nigeria, and Egypt have remained the top five trading partners with China, accounting for 56% (2006), 58% (2007) and 61% (2008) of Africa’s total trade with China respectively. During the same period, essentially the same top ten African countries account for 90 – 93% of Africa’s total exports to China (3).

The nature and scope of China’s financial engagements in Africa

In the absence of clear data, China’s financial engagement in Africa is often lumped together with official development assistance (ODA), commonly referred to as aid. In fact, a large part of it consists of export credits and subsidies in support of investments by China’s state-owned enterprises. Where concessionary loans are given, some are linked to LIBOR (London Interbank Offered Rate). These forms of financial assistance fall outside the definition of ODA according to the OECD (4). Nor does China claim that they should be considered as aid.

Following the OECD strict definition, Deborah Brautigam estimates that China committed about $1.4 billion in official development aid in 2007, rising to $2.5 billion by 2009. The 2007 figure is small compared with other major ODA donors : (in $billion) USA ($7.6), World Bank ($6.9), EC ($5.4), France ($4.9), UK (42.8), Japan ($2.7), and Germany ($2.5) (5). Between 2005 – 2007, the World Bank committed $17.4 billion for Africa while China's Eximbank committed less tahn $16 billion. This exposes the sometimes quoted hype that China is bigger than the World Bank in Africa (6).

A further area of confusion is the 'package financial mode' adopted by China's Ministry of Commerce and the Eximbank, combining concessional loans, sellers and buyer's credits, and bank guarantees in support of large infrastructural projects. Concessionary loans to Africa account for about 50% the World Bank's portfolio compared with only 3% of the Eximbank's. About half of Eximbank's commitments represents seller's credit while a third is accounted for by guarantees. In contrast, almost the entire World Bank portfolio is composed of actual loans. The World Bank's loans are often at zero interest, repayable over thirty-five to forty years, while most of the China's loans and credits are linked to market rates and are repayable over ten to twenty years.

In addition, there are official loans not qualifying as Aid which fall into the category of 'other official flows' (OOF). For example, the China Development Bank (CDB), five times larger than the Eximbank, is gradually extending into Africa. It does not give ODA but provides non-concessionary development finance by raising a large part of its funding through the issue of bonds overseas and in China. In 2006, it provided finance for a giant Chinese telecommunication equipment firm, ZTE, to develop a competitive bid for a major tender for Ethiopia's millennium telecom expansion project at a cost of $1.5 billion. In May 2008, through its local partner the Development Bank of Kenya, it offered fifteen-year mortgage finance for 528 moderate-income 'Great Wall Apartments' developed by a Chinese company Erdemann Property Limited. The CDB has established a China-Africa Development Fund, its equity investment arm for Africa (7).

China's infrastructural investments in Africa

China’s infrastructural investments in Africa are sometimes equated with the construction of high-profile government or municipal buildings like national stadia. They are frowned upon as propping up corrupt and despotic regimes at the cost of political reform. The lack of transparency in such investments remains a cause of concern. For example, in January 2010, the US-China Economic and Security Review Commission (USCC), a US Congressional body, expressed unease with the involvement of the China International Fund (CIF) group based in Hong Kong in the acquisition of more than 1,000 acres of land to build satellite town around Harare, capital of Zimbabwe, which is under US, EU, Australian and Canadian human-rights-abuse sanctions (8).

In the 1970s, the Railway Engineering Corps (formerly owned by the Chinese army) and the China Civil Engineering Construction (formerly a foreign aid office under the Ministry of Railways) built China’s biggest foreign aid project, the Tan-Zam Railway. These two former entities have since merged into the China Railway Construction Corporation (CCRC). Its recent projects include an $8.3 billion contract in 2006 to re-build the dilapidated 2,733 km colonial-era railway between the coastal city of Lagos and Kano, capital of northern Nigeria. In war-torn Democratic Republic of Congo, between 2007 and 2009, China Railway Engineering Corporation, (CREC), a commercial rival of CCRC and a Fortune 500 company which built Shanghai’s high-speed Maglev airport train, obtained an Eximbank loan of $6 billion to partner with the Chinese hydroelectric company Chinahydro to build Congo’s power plants and repair water supply systems across the country. It would also build thirty-two hospitals, 145 health centres, two hydroelectric dams, two large universities, two vocational training centres, and thousands of low-cost houses. Congolese ministers hailed the deal Congo’s ‘Marshall Plan’(9).

Commercially, China’s global corporate champions have also been proactive on the continent, particularly in the telecommunications industry. ZTE is part of a consortium winning the tender for Sonitel in Niger and is reportedly trying to acquire Zamtel in Zambia. Huawei, in partnership with Canadian Nortel, won a $100 million contract as the leading CDMA (code division multiple access) provider for Nigeria's fixed wireless phone operator, Multilinks. China Mobile has tendered a $4 million bid for Nasdaq-listed Millicom International, a global mobile operator with African subsidiaries in Chad, Democratic Republic of Congo, Ghana, Mauritius, Senegal, Sierra Leone and Tanzania (10).

Spotted throughout the African continent are numerous infrastructural projects and facilities funded by the China government and built by China's state-owned construction companies as well as commercial infrastructural contracts won by Chinese enterprises. It is not an exaggeration to say that China is now re-building Africa.

How accountable are China's financial disbursements?

It has long been a concern of Western donors that aid funds have a way of dissipating in the hands of recipient governments. Recently, this was highlighted again by the House of Commons Public Accounts Committee report published on 26 January, 2010 (11).

China's Eximbank loans are seldom disbursed directly to borrowing governments. The approved loans, usually backed by agreed purchase of resources, stay in an escrow account in China. Amounts are released only upon the delivery of commodities or directly to Chinese construction companies contracted to carry out infrastructural projects. This mechanism serves to translate loans into concrete facilities and should reduce opportunities for wholesale embezzlements or individual corruption in host countries.

However, Chinese companies themselves do not always enjoy a good reputation overseas. According to Transparency International's 2006 Bribe Payer's Index, they rank 29th near the bottom, out of 30 countries. The Chinese Communist Party Central Committee included overseas commercial bribery in their work plan in June 2008 (12).

How sustainable are the Chinese loans?

Concerns are often expressed on whether China is adding to the already stretched debt burden of Africa. The World Bank and the IMF can sanction a Highly Indebted Poor Country (HIPC) for taking anything but a highly concessionary loan. Against this restriction, Li Ruoguo, the Eximbank President, explained his theory of ‘dynamic sustainability’. Where a country is considered ‘debt distressed’, if a project is fully commercially viable, why should it need a subsidized concessionary loan? A study by Helmut Reisen and Sokhna Ndoye at the OECD shows China’s investment together with rising prices of raw materials helped improve the debt-distress indicators of both Angola and Sudan. However, in 2008 when commodities prices fell, the situation was very different. Indeed, in the wake of the financial crisis, a number of China-funded large hydroelectric projects in Mozambique, Zambia, Guinea and Gabon seemed to be stalling. A greater degree of caution has set in (13).

Traditional objectives of China’s African strategy

Joshua Eisenman summarizes China’s post-Cold War African strategy into (a) gaining political support amongst developing countries in the United Nations; (b) support for the One China Policy; (c) acquisition of energy and other natural resources; and (d) commercial interests (14). As of May 2009, all but four small African countries - Burkina Faso, Gambia, Sao Tome and Principe, and Swaziland – support Beijing’s One China Policy. While the long-standing rivalry with Taiwan in Africa can be said to be virtually over, the continued support in the United Nations of the vast majority of African nations for Beijing’s stand on the One China Policy and other issues (such as human rights) remains of considerable strategic importance.

China is poorly endowed in oil, gas and many other industrial commodities compared with the size of her population. She needs to acquire as much of these resources as possible to sustain her continued development and political stability. The following table (15) shows clearly China's thirsty quest for African resources :

China's % share of selected African states' export of commodities

	Crude Oil	*Metals*	*Wood*	*Cotton*
Angola	100			
Sudan	98.8			
Nigeria	88.9			
Congo	85.9			
Gabon	54.8		42.3	
DRC		99.6		
Ghanna		59.8		
SA		46.5		
Cameroon			39.7	
Tanzania			24.3	53.8

However, China's engagement in Africa is by no means just a story of resources. China gives aid to very single country in sub-Sahara Africa supporting the One China Policy, including relatively well-off countries like South Africa and Mauritius. Indeed, a great deal of the Eximbank's loans are commercially-oriented, dictated by how credit-worthy the borrowers are as in the case of a fully commercial bank. Some of these loans are tied to Chinese exports of goods, equipment and machinery, which amounted to more than $50 billion in 2008. Some resulted in Chinese construction companies winning contracts, which amounted to $29 billion in 2007. So a key driver of China's African engagement is export of goods and services to new markets, providing profits and opportunities for Chinese enterprises to hone their international competitiveness. These Chinese enterprises, including state-owned commodities companies, have considerable leeway of operation. A Japanese survey found that the oil companies are under no obligation to ship all the oil back to China. Some sell the oil in the international market where the price is highest. The same applies to Chinese investors in Zambia's cooper mines (16).

China's African Special Economic Zones (SEZs)

China's African adventure took an interesting turn at the November 2006 Forum on China-Africa Cooperation (FOCAC) Summit in Beijing when President Hu Jintao announced the intention of developing three to five economic and trade cooperation zones in Africa.

This is part of China's strategy of 'going global', for which a key platform is the establishment of overseas economic zones. In 2006, the Ministry of Commerce (MOFCOM) announced that China would support its enterprises to establish fifty such zones around the world. These zones are modeled on China's long established and highly successful model of SEZs.

Unlike the traditional export processing zones set up by governments, these African special zones, once selected, are to be built and operated entirely by Chinese enterprises as profitable ventures in a range of businesses including manufacturing and services. They are to be company-centred and business-based with the winning proposals from business contenders selected on competitive market principles. In Africa, MOFCOM would provide up to $25 milliuon in grants and $250 million in long-term loans, together with export tax rebates, easier access to foreign currency, and promotional support to attract small and medium sized companies into the zones. The relevant Chinese embassies would help with negotiations with the host governments over land, tax, and work permits issues. Each zone is to include no more than three key industries.

The designated African countries are those with stable and close political relations with China. They are strategically chosen to reflect China's long term commercial priorities on the continent. Viewed as such, they form China's 'Grand Plan for Africa', according to Martyn Davies, Executive Director of the Centre for Chinese Studies at the University of Stellenbosch (17).

The five-zone blueprint consists of the following:

(a) A **mining hub** radiating from China's concession in the Chambishi, the heart of Zambia's copperbelt, anchored on a $250 million copper smelter investment, expected to create up to 60,000 jobs. The China Nonferrous Mining Group, the concession holder, will be developing a cluster of local firms to produce bars, wires and cables etc from raw metals mined in Zambia. This would add to local job creation and hone the manufacturing skills of Zambian workers.

(b) An **Indian-Ocean-Rim trading hub** located in Mauritius, a Member of the South African Development Community and of the Common Market for Eastern and Southern Africa. It is also an offshore financial centre with a sizeable ethnic Chinese community, well integrated into the economies of South Asia. The China Development Bank (CDB) is expected to open its first African branch there. The 210-hectare development commenced construction in 2007 and is expected to include a fishing port, a dam, a road project from Verdun to Terre Rouge near Port Louis and a new town development in the Highland. Shanxi province's Tianli Group, the selected operator for the zone, aims to turn the new town into an 'i-Park' with '**i**ntelligence, **i**nnovation, **i**ncubation, and **i**nteraction', a modern airy new city with boulevards of filao trees and garden apartments with views of the Indian Ocean. The project intends to attract higher-value added investors, in line with Mauritius' service-oriented future (18).

(c) A **logistics hub for East Africa,** likely to be located in Dar es Salaam in Tanzania, alongside with Tanzania's own SEZ, to link up with the copperbelt in Zambia through the 1,860 km Tanzam Railway;

(d) A **manufacturing and assembly hub for West Africa**, to be located in a $500 million free trade zone in Nigeria as announced in 2007. A Memorandum of Understanding has been signed between Chinese state-owned Guangdong Xinguang International Group, Guangdong Xinguang International China-Africa Investment Limited, the United Bank of Africa (UBA), First Bank and the Ogun State government. China Development Bank (CDB) has indicated its intention to acquire a strategic equity stake in UBA. This hub is well placed as Nigeria is slated to become one of the world's eleven largest economies by 2050, according to Goldman Sachs.

(e) A **regional manufacturing export hub for Middle East and North Africa (MENA)** countries, to be located in Egypt, in a 20 sq. km zone with access to the Suez Canal, to be expanded in phases over the next ten years. The zone, to be managed by Tianjin Economic Technological Development Area, is expected to attract $2.5 billion of Foreign Direct Investment (FDI) and initially 100 Chinese firms, with outreach to markets in the Middle East and the European Union. China is forecast to be Egypt's largest trading partner in the medium term, ahead of the United States. It was no surprise that the last FOCAC summit in November 2009 was hosted by Egypt in Sharm el-Sheikh.

These Special Economic Zones are breath-taking in their vision and scope. They are set to have a major impact on regional economic integration as commercial hubs and corridor spokes.

Forum on China-Africa Cooperation (FOCAC)

FOCAC was conceived in 2000 to cement further the political, economic, commercial and cultural ties with Africa with the first head-of-state summit in Beijing the same year. Since then, the 2003 summit adopted the *Addis Ababa Action Plan (2004- 2006)* with a Preferential Tariff

Treatment Program removing import tariffs for 190 products from 23 African countries.

The 2006 summit adopted the *Beijing Action Plan (2007-2009)* amongst great fanfare and international spotlight. It ushered in a broad range of engagements including a $5 billion China-Africa Development Fund, $3 billion preferential loans and $2 billion export buyer's credits, cancellation of interest-free loans due by 2005, doubling development assistance by 2009, increase of zero tariff imports from 190 to 400 items, building 100 rural schools, 10 hospitals and 30 anti-malaria clinics, training 100 senior agricultural experts and 15,000 other professionals, as well as fielding 300 Chinese Young Volunteers Serving Africa.

On 9 November 2009, the *Sharm el-Sheikh Declaration and Action Plan (2010 -2012)* were adopted. The plan strengths cooperation with African regional and sub-regional organizations on issues including the international financial crisis, climate change, reform of the international system, the Millennium Development Goals and the Doha round of multilateral trade negotiations. China has made specific new commitments on setting up agricultural technology demonstration centers, opening markets, providing further preferential loans and establishing a special loan for African small and medium enterprises. In addition, China has pledged to assist African countries in clean-energy projects, increase Chinese government scholarships, provide assistance to more schools, train more people, cancel or reduce more debts, launch the China-Africa Science and Technology Partnership Plan, and provide medical equipments and material assistance. China has also proposed the launching of a China-Africa joint research and exchange plan to strength academic exchanges and cooperation. The main objective is to enhance African countries' capacity for sustainable development (19)

These summit forums provide a substantial, wide-ranging, action-oriented platform at head-of-state level at periodical intervals, which have served to cement China's ties with Africa on a broad front, an exercise of China's Soft Power to create a win-win situation (20).

The Equator Principles on Sustainable Development

In January 2003, more than a hundred international NGOs jointly released the *Collevecchio Declaration on Financial Institutions and Sustainability*, setting out for the first time minimum environmental and social standards for international project financing. Export credit agencies of all countries have adopted the *Recommendation on Common Approaches on Environment and Officially-supported Export Credits*. More than 40 banks, with a presence in over a hundred countries, have committed to respect the Equator Principles, including social and environmental assessments, risk classification, open consultation, information disclosure, grievance mechanisms, compliance covenants, independent monitoring, and periodic and open reporting.

However, the Equator Principles are not always applied in earnest. Projects can be carved up into smaller components to avoid the $10 million threshold. Examples of environmental damage caused by China-funded projects abound in Africa, for example, in Sudan, Angola and Nigeria (oil and gas extraction); in Zambia, Zimbabwe and the Democratic Republic of Congo (mining); and in Gabon, Equatorial Guinea, Cameroon, Liberia (logging) (21)

Albeit a late comer to the Equator Principles, China is increasingly expected to take them seriously as China's Eximbank and the China Export and Credit Insurance Corporation have become the world's largest supplier of export credits. By 2010, the Eximbank's long term loans are expected to reach between $40 – 80 billion while its export credit insurance is expected to reach $1.2 trillion. The Eximbank is now one of the three largest credit exporting institutions in the world, alongside with the Japan Bank for International Cooperation and the Export-Import Bank of the United States.

Since 2007, with a shift of national imperative to sustainable development and her own worsening environment, China has been trying to come into line with international banking and financial standards and is now starting to apply the Equator Principles.

In mid July 2008, the People's Bank of China (PBOC) and the China Banking Regulatory Commission (CBRC) announced a 'green credit policy' in the '*Opinions on implementing environmental protection policies and rules and preventing credit risks*'. The Ministry of Environmental Protection is collaborating with the Ministry of Finance , the China Insurance Regulatory Commission and the China Securities Regulatory Commission on policy research, experiments on green taxation, green insurance and green securities. These state organs are setting up laws and policies to establish systems for green credit, environmental risk management, green risk investment, ecological funds, environmental financing tools, green insurance, performance evaluation, accounting and reporting.

At the same time, Chinese environmental NGOs have become increasingly more proactive. In December 2006, Green Watershed, Friends of Nature, Mekong Watch, and Oxfam Hong Kong jointly organized the *China Finance, Environment and Harmonious Society Conference* in Beijing. However, their activities are yet to extend to the overseas investments of China's banks. A huge potential therefore exists for setting up channels of communications with Chinese environmental NGOs to help make China's 'Going Global' strategy more environmentally sustainable (22).

China's investments in African agriculture

Since the 1960s, China has implemented some 200 cooperation programs in Africa's agricultural sector, including the provision of agricultural experts, agro-technology programmes and demonstration centres. These initiatives have gained momentum with the FOCAC Addis Ababa Action Plan (2004-2006), which strengthened cooperation with Africa in human resources development, including training up to 10,000 African personnel in agriculture and other fields. The momentum was sustained in the FOCAC Beijing Action Plan (2007-2009) with a great deal of emphasis on rural infrastructure and agricultural expertise as described earlier in this Paper under FOCAC.

Despite continuing natural and developmental challenges, China has largely succeeded in feeding a population the size of a fifth of mankind with about only 7% of the world's arable land. Yields are on average triple those in Africa. Many of China's agronomical hurdles resonate with Sub-Sahara Africa's litany of problems: fragmented small-holder plots, lack of proper tenure, want of affordable fertilizers and technology, backward infrastructure, subsistence-level competition with animal husbandry, soil erosion, drought and dearth of water management, prevalence of pests, disease and weeds, dearth of improved crop variety, workers in quest of higher urban wages, diminishing arable acreage, and inadequate financial support and R & D.

Since 1960, over forty-four African countries have hosted Chinese agricultural aid projects and nearly 20% of China's turn-key aid projects in Africa have involved agriculture. Between 2003 and 2008, more than 4,000 Africans have completed agricultural courses in China ranging from three weeks to three months. President Hu Jintao has pledged to build ten agricultural demonstration centres for Africa and provide training in agriculture for an average of 5,000 Africans per year. China has actively participated in the United Nations Food and Agriculture Organization (FAO) Special Program on Food Security in a number of African countries. China's African involvement in building human and physical capacity for Africa's agricultural development is therefore much welcome (23). Such engagement is also timely as funding for agriculture in international aid agencies like the World Bank has plummeted from 23% of loans in the early 1980s to 5% just before the millennium. Some donors, such as the United States, have channeled funding more into food aid.

In addition to capacity building, a new feature of China's African venture is the honing of China's own commercial agri-businesses in partnership with local stakeholders (24).

At one end of the scale is China Agricon (China Agriculture, Livestock, Animal Husbandry, Fisheries and Engineering Service Cooperation Corporation), a company owned by China's Ministry of Agriculture. It is involved in a variety of businesses in Rwanda, Uganda, Madagascar and Libya, developing fish ponds and paddy fields often under contract with other aid donors.

At the other end of the scale is Yuan Longping High-Tech Agriculture Company, linked to Dr Yuan Longping, 'Father of Hybrid Rice', Director of China's Hybrid Rice Research Centre in Hunan Province and Winner of the 2004 World Food Prize (with Dr. Monty Jones of Sierra Leone) for cross-breeding Asian and African rice varieties. The patent, China's first in agro-technology, is registered in the United States. The pure parent stock (foundation or breeder seed) is imported from China and multiplied in Africa to get certified seed for use by ordinary farmers. This follows the footsteps of US-based Pioneer and Monsanto, Swiss firm Syngenta and Germany's Bayer Crop Science in marketing their hybrid maize across much of east and southern Africa.

As a first step, China State Farm Agribusiness Corporation (CSFAC) has established a joint venture with the Guinean Ministry of Agriculture at an agro-technology demonstration centre at Koba. With expertise from Yuan Longping's Hybrid Rice Research Centre, the trials showed the top variety yielding more than 9 tons per hectare, compared with an average of 1.5 tons of traditional yields. With the Chinese holding 80% of the shares, Koba has rapidly expanded into a large, diversified agribusiness.

Mozambique, with a vast untapped potential suitable for China's irrigated variety, was also amongst the first to host one of these centres. By the end of 2007, there are fourteen such centres in Africa managed by different Chinese enterprises or institutes. The Ministry of Commerce would give three years of grant support to selected Chinese ventures to give them a head start and expect them to grow into agribusinesses on their own.

The China National Agricultural Development Corporation, the parent of CSFAC, would run the centres in Benin and South Africa. The Hainan Island-based Chinese Academy of Tropical Agricultural Sciences would build the centre in Congo, Brazzaville. Yuan Longping High Tech is developing a centre at the Central Agriculture Research Institute (CARI) in Bong County, Liberia. Chongqing Seed Corporation is trying to use its own proprietary expertise to develop 300 hectares in Tanzania in partnership with local out-growers. In September 2008, Premier Wen Jiabao announced that China planned to build thirty of these agro-technology demonstration centres worldwide to promote the growth of hybrid rice. China is not alone in this as the German agrochemical company Bayer has announced its plan to expand its hybrid rice operations in China.

A major challenge for agricultural aid projects is their long-term financial sustainability after the donors have left. The Chinese model at least gives some food for thought.

It is open to speculation that China sees her African agricultural engagement as a form of long-term insurance against food and energy security due to her own arable land and water scarcity. In November 2006, the Chinese Ministry of Agriculture and the China Development Bank announced an agreement to work together to promote land and water intensive projects overseas. With the support of Chinese state institutions such as the CSFAC, Chinese companies are encouraged to invest in or set up farms in Africa (25). In Zambia, for example, there were some fifteen to twenty-three state-owned and private Chinese farms by 2009. In the Democratic Republic of Congo, an oil palm concession of 100,000 hectares was obtained in August 2007 by ZTE, a leading Chinese state-owned telecommunications conglomerate. In Uganda, a 500 square-kilometer concession near Lake Victoria was granted to Liu

Jianjun, a Baoding native in Hebei Province, to develop a private multi-functional 'East Africa Free Trade Zone' with over 600,000 hectares allocated to farming.

However, as Deborah Brautigam points out (26), even with the high grain prices in 2008, transportation costs are too high to ship African grain to China on a regular basis. Indeed, as a senior official at the Chinese Ministry of Agriculture explained, it is politically untenable to do so when so many people are starving in Africa. In any case, the Ministry of Commerce provides no special financial incentive for the CSFAC to produce wheat, corn, rice, soybeans and sisal in Africa.

Growth of Chinese migration and small and medium enterprises (SMEs) in Africa

Chinese migration follows a general pattern built on close family and clan ties, supported by low-wage work or small family businesses in their host countries. Chinese migration to Africa started as early as 1821 with Chinese miners, plantation workers and traders settling in Mauritius, Madagascar and South Africa. By the 1950s, Madagascar had more than 1,600 Chinese shops. In Mauritius, there were over 20,000 Chinese, representing about 3% of the population. In the late 1960s, the apartheid government of South Africa invited a number of wealthy Taiwanese families to invest and settle in designated regions. More recently, in the wake of large Chinese infrastructural and other investment projects in Africa, some who first came as project workers stayed on to start and grow their own small business ventures. It is estimated that as of 2006, there were over 1,000 active Chinese enterprises in Africa. Today, approximately one million Chinese reside and run various small businesses in the formal and informal sectors across Africa.

Aleksandra Gadzala, Founder of the China-Africa Research Network at Oxford, highlights the impact of Chinese traders and merchants on the viability of local small businesses in the informal sector, on which a large proportion of the economy of poor African countries depends.

Estimates from the African Development Bank suggest that informal sector enterprises represent over 90% of private business in the continent, contributing more than 50% of employment and GDP in most African countries (27).

Relying on their extensive family and business network back home, Chinese SMEs soon out-compete their local counterparts in the market for cheap goods. Their merchandise, for example, of wall clocks, watches, cheap jewelry, handbags, garments, food containers and pancakes abounds in the streets of Nairobi and Kampala. While local Chinese SMEs have added to the influx of cheap Chinese goods benefitting local consumers, their competitive advantages including networks in China, business savvy and efficiency, pose a formidable threat to local traditional businesses. In 2006, Nakasero Soap Works, a leading soap company in Kampala, closed after sixty-five years in face of keen competition by Chinese firms. Yam Yam Sweets was liquidated in the same year.

Additionally, Chinese SMEs in Africa follow the tradition of family businesses of hiring mainly their kith and kin, with the higher paid jobs given to trusted circles. In Zambia, for example, it is estimated that for every Zambian in a Chinese firm, there are about fifteen Chinese, with a total of only 10,000 local jobs created over the past thirteen years. When outsiders are hired, they nearly always hold low-skill, manual positions. Forty of the seventy workers at Dong Fang Development in Nairobi, for instance, are locals hired for manual tasks. Local workers of Chinese SMEs in Cape Verde are employed as shop assistants to communicate with customers to overcome the language barrier and as guards against shoplifting. There is no evidence of Cape Verdean workers handling money or being elevated to managerial positions.

Labour relations

Chinese large infrastructural projects are often accompanied by armies of imported Chinese manual labour. This has caused resentment to communities who see them as denying local workers their much needed job opportunities. Importing cheap labour-intensive goods from China is also seen by some as depriving the local workforce its manufacturing opportunities.

Another frequent complaint is that Chinese private employers go for the lowest wages in the region. In Sierra Leone, a commercial concession was obtained in 2003 by the state-owned Complant, one of the top 100 Chinese state-owned companies listed on the Shanghai Stock Exchange, to renovate, expand and manage the 1,280 hectare Magbass sugar complex, which was originally built as a Chinese aid project between 1977 and 1982. A 2006 World Bank study found that the Chinese management paid their workers only $1.62 per day, (although that was actually higher than the $1.26 paid by local firms). Following a series of strikes, Complant raised the wages to about $2.19 and the workers were happier, according to a vice president of the Sierra Leone Labour Congress. In addition, local landowners are complaining about the encroachment of their land rights and the lack of provision of corporate social benefits. There was also criticism of the lack of social responsibility, including polluting runoffs into the Rokel River which contributed to a cholera outbreak. Complant has now sold Magbass and its three other African sugar projects to Hua Lien, a Chinese commercial enterprise (28). It is evident that China’s labour relations in Africa leave much to be desired.

Human Rights

As for environmental protection and corruption in host countries, it can be said that China’s engagement with human-rights-abusing regimes in Africa is by no means unique compared with Western and other governments and their oil companies. United States-based oil companies are, for example, closely involved with Equatorial Guinea’s authoritarian regime, amongst the worst on the continent. In Angola, thanks to their expertise in deep water oil production, BP is operating Block 18 while Petrobras, Total and Eni are operating other offshore oil concessions in which China’s Sinopec has a majority interest. In Dafur in the Sudan, United States’ HiTech and Saudi Arabia’s Qahtani are holding significant concessions (29).

Stephen Brown, University of Ottawa and Chandra Lekha Sriram, University of East London, examine the question under international law of China’s alleged collusion and possible culpability for large scale human rights abuses in Sudan and Zimbabwe (30). They have concluded that in the direct supply of arms, the construction of roads and the hiring of the Sudanese army to protect her oil concessions, China may be responsible in some moral but not legal sense for failing to restrain the abuses of the Sudanese government. However, the sale of arms by both China and Russia, though not illegal, do appear to violate the UN Security Council Resolution 1591 in 2005 (on which China abstained).

During the approach of the Beijing Olympics, China’s willingness to pressure the Sudanese government began to increase. China did encourage the Sudan to accept a UN peacekeeping force (in which China actively participated) and did not veto UN Security Council Resolution 1706 to expand the existing African Union force to an AU-UN hybrid force. Nor did she veto the UN Security Council Resolution expanding the arms embargo or the Resolution referring the Dafur situation to the International Criminal Court. China appointed a special envoy for the Dafur crisis in 2007 and has claimed to have raised her concerns with the Sudan at the presidential level.

In the case of Zimbabwe, the government created ‘janjaweed’ youth militias to crush the opposition. Soon after the 2005 parliamentary elections, it launched Operation Murambatsvina (‘Drive Out the Trash’) resulting in the immediate loss of livelihood of some 700,000 people in shanty towns, believed to be the hotbed of opposition movements. In opposition to Western embargoes, President Mugabe announced a ‘Look East’ (read ‘China’) strategy, taking advantage of China’s no-strings attached policy. China is farming 1,000 square kilometers of farmland seized from white commercial farmers while China Aviation Industry has sold three airplanes to Air Zimbabwe, six jets to its air force, followed by 12 jet fighters and 100 military vehicles valued at $240 million, together with a variety of light armament. China has blocked UN Security Council condemnation of the Mugabe regime and binding UN sanctions.

Zimbabwe's rich platinum and over forty other mineral deposits are no doubt of considerable strategic interests to China. Nevertheless, the Chinese government is becoming suspicious of Mugabe's tactics of starving his opposition and destroying the Zimbabwe economy. There is increasing concern that Chinese loans will ever be repaid. China's interests were further dampened as the Zimbabwe government is nationalizing an increasing number of foreign assets. Later, attempts by Zimbabwe to secure another $2 billion loan from China were unsuccessful and many large-scale Chinese projects began to stall. In August 2007, Chinese officials signaled Beijing's intent to limit future Chinese involvement to humanitarian assistance such as food aid. China began to realize that Zimbabwe was becoming an economic and diplomatic liability. As a result, Mugabe is now turning for financing elsewhere, including Libya.

The authors have found even less evidence of China's legal culpability for what happened in Zimbabwe. There is very weak evidence that the Chinese government should have known that the weapons provided would be used to commit abuses. Indeed, Chinese weaponry did not appear to have been used in any of the atrocities. The fact that Chinese companies have stepped in the shoes of ousted white commercial farmers does not of itself make a very strong case. As in the case of Sudan, China likewise cannot be held legally culpable for not restraining the Mugabe regime from committing abuses or shielding it from international sanctions. It was doubtful that China's support was key in keeping the regime in power or that China has the power to change Mugabe. Indeed, China is currently disengaging from Zimbabwe with no discernable impact. In any case, China's holistic and realist approach to the issue of human rights does not embrace the West's preference for one-size-fits-all coercive tactics.

Deborah Brautigam shares a similar conclusion in *Rogue Donor? Myth and Realities* in her book *The Dragon's Gift, The Real Story of China in Africa* (31). She adds that as in the case of Sudan, other countries also supplied Zimbabwe with arms. Ukraine, for example, provided weapons worth $12 million between 2005 to 2007. On the business front, Barclay and Standard Chartered retained branches in Zimbabwe. A French bank provided a loan to Zimbabwe, using her nickel resources as a guarantee. A South African mining company loaned Zimbabwe $100 million as part of a platinum investment. As recently as 2008, Anglo-American announced plans to invest nearly $400 million in developing a new chromium mine at Unki 'to create a viable business … important to the economic future of Zimbabwe for years to come'. Brautigam confides that 'we should do better to push China to change if we had more evidence that our own tactics including sanctions, embargoes, and even armed intervention, as in Iraq, resulted in social justice, stability, and prosperity for the people our governments mean to help.'

While China may not be legally culpable, it is a common criticism that China's African engagement has served to prop up dictators and undermine Western efforts to bring about better governance and more democracy. The linking of the Beijing Olympics to accusations of genocide in Sudan was a salutary reminder of the strength of some of the negative perceptions of China's 'no-questions-asked' approach to Africa. There is no escaping the fact that by rendering assistance to unsavoury regimes, China risks becoming morally tarred with the same brush, or as the Chinese saying goes, 'getting soiled in the company of pigs'.

Impact on building governance and democracy

As evident from successful completion of FOCAC Action Plans so far, China has contributed proactively to the betterment of agricultural production, health, education, and poverty relief in Africa. Much, however, remains to be achieved towards fulfilling some of the African imperatives of the United Nations Development Program (UNDP), such as Peace, Local Government, Economic Diversification, Social Service and Inclusion, Sustainable Livelihoods, and Integrated Approach to AIDS/HIV.

As a leading player in Africa's extracting industries, China has much to offer, for example, in furthering the words and spirit of the Extracting Industries Transparency Initiative. Likewise, China has still to rise to the occasion of playing a larger role in improving law and order, work safety, the environment and human rights across the continent.

There is a reservoir of international and local goodwill for China to tap into: G8 Summits, the New Partnership for Africa's Development (NEPAD), the African Union, Africa's sub-regional bodies, and last but not least, civil society, including local and international NGOs. Some of the work in engaging the various stakeholders could be handled through a Permanent Secretariat for FOCAC. While remaining cautious about China's African engagement, even the US Council on Foreign Relations and the Centre for Strategic and International Studies have called for a less confrontational dialogue with China over Africa (32).

Although the Western world is still fixated on promoting democracy as a universal panacea, the evidence of its indispensability for economic development in Africa and elsewhere is at best tenuous. As Dambisa Moyo points out in *Dead Aid* (33), 'it would soon become clear that any improvements in Africa's economic profile have been largely achieved in spite of (nominal) democracy, not because of it.' 'What poor countries at the lowest rungs of economic development need is not a multi-party democracy, but …a decisive benevolent dictator to push through the reforms required to get the economy going'. Indeed, 'democracy is not the prerequisite for economic growth.' 'On the contrary, it is economic growth that is a prerequisite for democracy.' Like marriage, democracy has to take its time. This is also borne out by Randall Peerenboom's 2007 empirical research of democracies in the developing world against

United Nations Development Program (UNDP) Human Development Indexes (34). This begs the question whether a coercive and ostracizing approach to failing African states is always the best solution. Indeed, much of the good work in building better governance can proceed in the absence of immediate democracy.

Money beyond Aid

In *Dead Aid*, Dambisa Moyo offers some food for fresh thinking outside a dependency model (35) on how China's role in meeting Africa's developing needs could be further enhanced.

First, in December 2005, Premier Wen Jiabao pledged that China's trade with Africa would rise to $100 billion per year within five years. By 2008, this target was already reached. By 2013, if this trade flow is sustained, it would be equivalent to 50% of the $1 trillion of African aid over the past sixty years.

Second, it is estimated that there are some 10,000 organizations involved in micro-finance including NGOs and banks. After the success of the Nobel Prize Award winning Grameen Bank in Bangladesh, their resources and enthusiasm can be tapped for Africa.

Third, according to a United Nations Report '*Resource Flows to Africa: An Update on Statistical Trends*', African diaspora around the world sent home $17 billion each year between 2000 and 2003, topping the FDI of $15 billion during the same period. An April 2008 World Bank report '*Beyond Aid: New Sources and Innovative Mechanisms for Financing Developing in Sub-Sahara Africa*', suggests that as much as $1 – 3 billion could be raised every year by reducing the cost of these remittances; $5 – 10 billion by issuing bonds to raise funds from Africa's overseas disapora; and $17 billion by securitizing future remittances. Innovative mobile phone technology should also make these remittances cheaper and quicker.

Fourth, leveraging capital locked up in personal savings or land rights could open up innovative funding avenues. The latter depends of course on a transparent and reliable legal framework protecting such rights.

Fifth, notwithstanding the last massive bond defaults in the mid-1990s of 35-odd African countries, emerging market debt is now beginning to look increasingly attractive. It has almost consistently outperform international stocks in the past decade. Its spread (the premium over the borrowing cost of a risk-free borrower e.g. the US government) has shrunk from 30% to a record low of 5% in 2006. In September 2007, Ghana issued a $750 million ten-year bond in the international market, followed by Gabon with a $1 billion ten-year bond. In October 2007, the World Bank launched its Global Emerging Markets Local Currency Bond (GEMLOC) with PIMCO appointed as investment manager. A new independent and transparent index (GEMX) is being developed for the global emerging-market local currency debt asset class. Standard and Poor's, the international credit rating agency, has compiled a report '*Financial Institutions Debt Issuance is Likely to Increase in Sub-Sahara Africa*', published on 30 April 2008 in *Rating Direct*. It opines that in the next two or three years, banks from Ghana, Kenya, and the West African Economic and Monetary Union as well as the Monetary Community of Central Africa are the most likely candidates in the long term debt market. To reduce risks, some of these debt instruments could be fully or partially guaranteed by the World Bank.

The above ideas and opportunities may well interest some of China's banks including but not limiting to the China Development Bank and the Industrial and Commercial Bank of China, which has acquired a 20% stake in Standard Bank, Africa's largest bank.

China's African Balance Sheet and the Role of Civil Society

After a sorry tale of 60 years of failing African aid, China's new engagement with Africa has much to offer for Africa's development. It has helped rebuilt much of Africa's crumbling infrastructure, laying the groundwork for closer regional integration. It has constructed many needed schools and hospitals. It has provided training in raising agricultural productivity and technical expertise. It has delivered all these goods in an efficient, no-nonsense and economical matter, within budget and on time. Its managers, supervisors and the lowest workers are on extremely low salaries and wages by international standards. They often live together in cheap local accommodation on site. They do not use up aid funds for luxury class hotels.

China's investment is diversifying into manufacturing and other industries as evident from China's strategy of setting up African regional special economic zones in cooperation with local partners. It has brought Africa more into the world trading system and opened up opportunities for Africa to lift itself from a culture of aid dependency. It has managed to translate aid and investment funds more effectively and quickly into concrete outcomes through a fully integrated package of 'China Inc', combining seamlessly the roles of the Chinese state, funding institutions, state-owned enterprises and private companies.

China's engagement in Africa has therefore served as much the purpose of meeting Africa's more pressing physical development needs as China's energy, resource and diplomatic interests. It has raised China's profile and geopolitical influence in Africa in a relatively short time. That is what China means by a 'win-win' situation.

On the other hand, China faces regular criticisms of flooding the local markets with cheap goods, which compromise the livelihood of local small traders. Her practice of importing Chinese labour for construction projects is seen as depriving local workers of jobs which could be theirs. The practice of Chinese employers to go for the lowest possible wage and other remuneration standards is also a thorn in the flesh.

Moreover, African states are still dominated by tribalism, elitism, ethnic confrontation, dysfunctional and corrupt governments and the lack of conflict resolution mechanisms. Serious human rights violations and humanitarian disasters remain a regular occurrence. China's no-strings-attached strategy (barring the One China policy) has become more costly to China in terms of reputational damage as it is being taken advantage of by infamous despots to perpetuate their grip of their suffering masses.

China has been much acclaimed for her rising Soft Power. But ironically, while China seems to score high in Africa on the hard physical development side (except the environment), she measures up poorly on the soft side in terms of governance, institutions, transparency, conflict resolution, labour relations, the environment and the embrace of civil society. In these areas, local and international NGOs in Africa are active and critical of China's engagement, though often as a result of lack of understanding and interaction with the Chinese authorities. A more proactive and closer working relationship with key stakeholders of Africa's civil society in these areas would serve to enhance China's reputation and image in the international community.

Policy Recommendations

<u>*For the West's financial, trade, investment and aid architecture*</u>

- A comprehensive package should be devised for international stakeholders including the United Nations Development Program, the World Bank, and key donors to enable poor countries ***to move away from aid dependency within a pre-determined time frame*** with deliverables on the roadmap.

- More emphasis should be put on ***building physical infrastructure, human knowledge and skills and the development of private enterprise as a pre-condition*** for early stage development and long-term survival.

- For very poor countries, a more ***bottom-up developmental approach to democracy and human rights*** should be explored instead of demanding these virtues outright as a pre-condition. The primary focus should be on immediate livelihood issues such as food, health, education, poverty, law and order, work safety, and environmental sustainability, working in close partnership with G20 countries, international institutions, the New Partnership for African Development (NEPAD), the African Union, sub-regional bodies, local government, NGOs and civil society.

- A review should be undertaken to see ***what, how, when and whether conditionality should apply*** depending on different political, economic, social and ecological circumstances, in lieu of a one-size-fits-all mindset.

- International institutions including the United Nations and the World Bank should work more closely with individual donor and investing countries to develop a ***Pan-African regional approach to infrastructural development***, including continental and sub-regional transport networks.

- ***New financial instruments*** should be explored such as ***micro-finance, and Africa diaspora bonds,*** including the possibility of World Bank guarantees, with a view to leveraging international commercial enterprises and capital in infrastructural and other investments and to integrating them into ***a more for-profit and aid-avoidance approach to development assistance***.

- New ideas of international cooperation should be developed in tapping ***sources of investment capital for Africa's development across nations and institutions***, including the world's ***sovereign wealth funds,*** in partnership with international institutions such as the World Bank, the International Monetary Fund, and the African Development Bank.

- Greater efforts ***to liberalize international trade*** in areas where poor African countries may have a comparative advantage, ***particularly trade in agriculture*** as the mainstay of African economies.

- A new initiative should be launched ***to institutionalize and protect individual land and property rights*** with a view to empowering the people economically by using their rights as collateral for loans for starting their own businesses, supported by a social safety net.

- More vigorous implementation of the ***Extracting Industries Transparency Initiative***. To avoid siphoning off funds for resource-backed projects, consideration could be given to assimilating China's model of setting up an ***escrow account*** outside the recipient country from which funds are directly paid to authorized contractors.

- More proactive efforts should be made to sell ***green knowledge and technologies*** to donor and investing countries, especially China, for projects ***in the extracting industries*** and in the development and construction of ***infrastructural projects***.

- With the threat of food security, Africa should be viewed as the ***Food Basket of the World***. A comprehensive program should be devised with all stakeholders, encompassing scientific institutions and individual countries including China, to enhance ***African agricultural productivity***, and to develop innovative commercial solutions and ***agribusinesses*** to achieve long term sustainability and optimum benefits for all.

- A coordinated training program should be devised to ***update and enhance the business knowledge, skills and network of Africa's SMEs*** and to open up opportunities for their development, including their inclusion in existing and new local and international business chambers and trade associations.

- ***A preventive rather than reactive approach*** should be developed to ***humanitarian challenges***. An early warning and intervention system should be explored by major stakeholders against potential flash points that may lead to humanitarian catastrophes and to develop workable platforms and mechanisms involving the active participation of donor and investing countries and international institutions.

<u>*For China*</u>

- A more ***nuanced modification of the no-strings-attached policy*** is called for to guard against reputational risks. This would involve working proactively with civil society stakeholders and articulating the rationale more vocally in international media.

- A ***more open and constructive approach*** should be adopted ***to help resolve pressing issues of human rights violations,*** working in partnership with international agencies, civil society and other stakeholders.

- ***More proactive efforts*** should be made to work with the international community ***to help develop better governance and democratic institutions*** in African countries in a way best suited to the political, economic, social and ecological circumstances of each country without compromising sovereignty principles.

- ***An initiative*** should be launched in partnership with the international community ***to*** lead efforts in helping African countries ***embrace the Extracting Industries Transparency Initiative***

- ***More attention*** should be paid to ***how extracting and infrastructural projects are implemented*** with a view to full compliance with the ***Equator Principles***. The operations of Chinese contractors should be better monitored to avoid embarrassing transgressions. Proactive efforts should be made to incorporate the most suitable green concepts and technologies.

- A national strategy should be developed on ***outsourcing*** *to Africa* ***a certain type and amount of manufacturing industries in China*** with a view to achieving the twin aim of technological upgrading in both China and African countries and helping African economies to diversify. This should also act as an antidote against the charge of cheap Chinese goods, some of which can then be produced locally in Africa.

- A proactive approach should be made to ***host countries to agree on an appropriate ratio between imported workers and locally engaged workforce*** for each project. The provision of local job opportunities should be articulated clearly in advance and local recruitment exercises given due publicity.

- ***Guidance*** should be given to local Chinese employers ***on appropriate wage levels and good employer ethics,*** bearing in mind that in a way they are 'ambassadors' for China's image in Africa.

- A new initiative should be launched ***to help African SMEs to tap into the market in China***, and to help them build useful contacts with Chinese suppliers. Consideration should be given to creating a ***special i-trading platform***, perhaps similar to Alibaba.com, so as ***to bridge the access between African buyers and suppliers in China***.

- Efforts should be made to encourage ***much greater interaction*** between Chinese and local SMEs, between Chinese project workers and local Africans, in other words, ***between Chinese expatriates***

and the local community, through more language training, participation in local civic projects and local chambers of commerce etc. Consideration should be given to staging suitable local social projects to demonstrate a good sense of corporate social responsibility.

- China Investment Corporation (***China's sovereign wealth fund***) should be encouraged to seek ***investment opportunities in Africa***, particularly those that will generate local jobs, enhance local knowledge or skills, preserve local environments, and improve local infrastructure. Consideration should be given to seeking ***partnerships with international institutions*** such as the United Nations Development Program and the World Bank (with the possibility of bank guarantees), ***state and commercial actors in the financial services sector, as well as regional and international civil society*** as appropriate.

Conclusion

The world has now entered into a new era of truly global interconnectivity, a multilateral world where issues, problems, conflicts and opportunities have to be viewed in a coordinated and holistic 'win-win' mindset. Moreover, it is in an unprecedented phase of simultaneous emerging industrial revolutions on a massive scale. Africa's cornucopia of developmental resources is therefore much sought after. China's African engagement stands out as a leading example of this inter-dependent world with the promise of a global developmental and business vision. The time for African economies to take-off has come. This offers many new opportunities and challenges for actors in business, government, civil society and international institutions worldwide.

Yet Africa has to overcome decades of infrastructural, institutional, social and human capital neglect. Six decades of aid amounting to $1 trillion have failed to turn it around. The situation in some African countries may have got worse. Out of her own strategic development imperatives, China is now in Africa with a difference, with a coordinated business-oriented footprint across the entire continent. China's model of African engagement causes deep concern with some of the daunting challenges it fails to address as much as arouses captivating interest in the exciting vision and opportunities it offers. It is hoped that China, Africa and the international community, including government, business, civil society and institutional actors, can keep a clear and open mind on how best to leverage its positive and how to overcome its negative elements, for the benefit of all. What is more important, all parties are now bound together in an era of common interests and interdependence. Towards the attainment of the Millennium Development Goals by 2015 on the road to global economic recovery, the stage is well set for a pressing quest worldwide for a new Africa to emerge from the darkness of poverty, disease, corruption and war into the light of dynamic growth, economic opportunities, social justice and sustainable development.

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(1) Dambisa Moyo, *Dead Aid*, Allen Lane, Penguin Books, 2009, p. 46 – 47.

(2) In 2005 in Paris, donors and aid recipients signed the Paris Declaration on Aid Effectiveness, promising a new system of mutual accountability, ownership, alignment, transparency, harmonization and results. China signed more in the capacity as aid recipient rather than aid donor.

(3) *China-Africa Two-way Trade: Recent Developments*, Mark George, Policy Analyst, DFID China, 30 January 2009.

(4) Member countries of the OECD report aid on the basis of an agreed definition of official development assistance governed by two criteria: (a) the funding must primarily be designed to promote economic development and welfare of the recipient country and (b) it must be given on a concessionary basis. Export credits should therefore be excluded as well as grants and subsidies to support private investment. As for concessionary loans, according to OECD's Development Assistance Committee, any loan with a LIBOR rate is by definition a market rate and should not be considered concessionary. Deborah Brautigam, *The Dragon's Gift, The Real Story of China in Africa* (New York: Oxford University Press, 2009) p. 14 and p.176.

(5) Ibid., Figure 6.4, p.172.

(6) Ibid., pp. 179 – 182.

(7) Ibid., pp. 115-116.

(8) *Firm under scrutiny by US security panel, Beijing distances itself from CIF*, South China Morning Post, 18 January, 2010.

(9) Deborah Brautigam, *The Dragon's Gift, The Real Story of China in Africa* (New York: Oxford University Press, 2009), pp. 163 -164.

(10) Dorothy-Grace Gerrero and Firoze Manji (Editors), *China's New Role in Africa and the South*, Fahamu – Networks for Social Justice, Cape Town, Nairobi and Oxford, 2008, p.137.

(11) Article in the Times '*Where did the £300 million go? Doubts over aid to Africa'* at http://www.timesonline.co.uk/tol/news/uk/article7002255.ece *(accessed on 26 January 2010).*

(12) Deborah Brautigam, *The Dragon's Gift, The Real Story of China in Africa* (New York: Oxford University Press, 2009), pp. 294- 296.

(13) Ibid., pp. 184 – 188.

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(16) Deborah Brautigam, *The Dragon's Gift, The Real Story of China in Africa* (New York: Oxford University Press, 2009), p. 281.

(17) Martyn Davies, *Special Economic Zones: China's Developmental Model Comes to Africa*, in *China into Africa, Trade, Aid and Influence*, Robert Rotberg (Editor), Brookings Institution Press, Washington D.C., 2008, pp. 137 – 154.

(18) Ibid., pp. 144 -146. Also see Deborah Brautigam, *The Dragon's Gift, The Real Story of China in Africa* (New York: Oxford University Press, 2009), pp. 102 – 103..

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(21) Mitchell Chan-Fishel, *Environmental Impact,: More of the Same?*, in *African Perspectives on China in Africa*, edited by Firoze Manji and Stephen Marks, Fahamu – Network for Social Justice, Cape Town, Nairobi and Oxford, 2007, pp. 139 – 152.

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(26) Ibid. p. 257
(27) Aleksandra Gadzala*, Chinese Entrepreneurs in Africa's Informal Economies* in *China Review*, Issue 46, Spring 2009.
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(29) Henry Lee and Dan Shalmon, *Searching for Oil: China's Oil Strategies in Africa*, and Stephen Brown and Chandra Lekha Sriham, *China's Role in Human Rights Abuses in Africa: Clarifying Issues of Culpability*, in *China into Africa, Trade, Aid and Influence*, Robert Rotberg (Editor), Brookings Institution Press, Washington D.C., 2008, pp. 120, 122, 251, and 258.
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