

# Why China matters to Africa (and Africa matters to China)



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# Overview

- ▶ Why we care
- ▶ Finance in Africa is changing
- ▶ Mutual benefits for Africa and China
- ▶ Five main benefits for Africa
- ▶ Summary



# World Bank perspective – Why do we care?



- ▶ China - one of our most important MIC clients
  - ▶ Africa – focus continent for WBG - >50% of IDA (approx. \$5b p.a.)
  - ▶ South Africa - important MIC in Africa
  - ▶ WBG: as a multilateral development cooperative mandated to assist all members in promoting growth and reducing poverty
- ⇒ Hence, we will be looking for areas of mutual benefit between China and Africa.

# 2007 China – WBG MoU

- ▶ Exchange knowledge and experience on Africa's development challenges
- ▶ MoU with China Exim Bank: share experience and develop cooperation in Africa
- ▶ With Chinese Ministry of Finance: systematic exchanges of experts



# Context: Finance in Africa is generally changing

- ▶ Structure, volume and nature of financial flows to Africa are changing
  - ▶ 'Emerging Financiers' (China, India, Arab countries) = \$5b p.a. = approximately p.a. concessional WB investment in SSA (IDA)
  - ▶ Private Banks, ex.: Eurobond issue Ghana \$500m in 2007
- ⇒ Traditional aid financing is no longer the only game in town !



# Mutual benefits

## For Africa

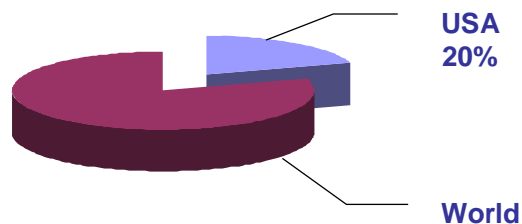
1. Expertise
2. Investment
3. Trade and Integration
4. Diversification
5. "South – South"

## For China

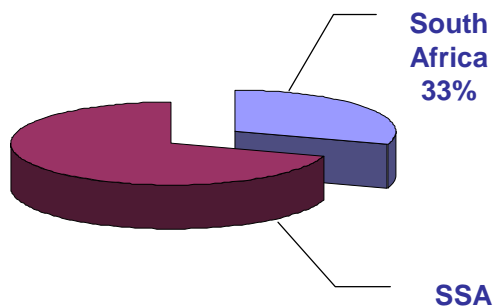
1. Trade
2. Resources
3. Global Player
4. "South – South"
5. SA spillover



# A small excursion: Why SA matters to China



- **United States**
  - 20% of world PPP GDP
  - nearly 25% of the expansion in world real GDP during the 1990s



- **South Africa**
  - 33% of African PPP GDP
  - 30 percent of the expansion in African GDP during 1980–2003
  - African and South African growth move closely together



# Benefit #1: Expertise

## What can Africa learn from China ?

Source: Martin Ravallion, DECRG (2008)

- ▶ Training and provision of expertise is stated objective of 2006 Africa Policy
- ▶ Caveats: context matters !
- ▶ That said, China's has achieved what Africa has not: a reduction in absolute poverty (< \$1 per day) from 1981 – 2004 from 65% to 10%, while SSA remained approx. at 40%
- ▶ In absolute numbers: \$500m fewer poor Chinese, \$150m more poor Africans in past 25 years
- ▶ So, how did China do this ???





# #1 - In search of lessons – ctd.

## Key lessons:

- ▶ Rural growth had four times more poverty impact than manufacturing, and was also *causally relevant* for the latter (sequencing lesson)
- ▶ Strong public institutions (capacity) and the willingness to innovate and learn
- ▶ But also, inequality rose and pollution increased



# #1 - In search of lessons – ctd.

“Household Responsibility System” (1980)

- ▶ Born out of food insecurity
  - ▶ A radical reform: collectives dismantled, all farmland allocated (equitably) to individual farmers (land use rights, rather than ownership), farmers kept marginal product of their labor
- ⇒ Empowerment of the rural poor through market incentives



# Benefit #2: Investment

- ▶ Premise: **SSA needs \$37.7b basic infrastructure investment p.a. over 10 years** (recent WB study)
- ▶ According to China's 2006 **Africa Policy** (economic section): goal is to double 2006 assistance by 2009
- ▶ **\$5b preferential loans and buyer's credits**, China-Africa Development Fund, (plus debt relief)
- ▶ Large share is in **infrastructure** (hydro power and rail transport), but also hospitals and schools
- ▶ **Risks** with regard to choices and quality of investments need to be managed – but not peculiar to Chinese investments



## Benefit #2: Investment ctd.

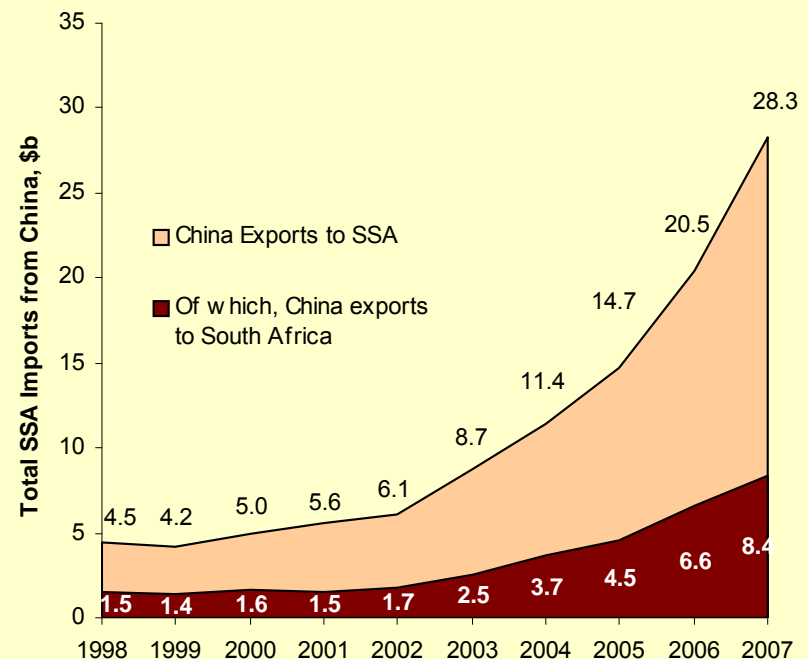
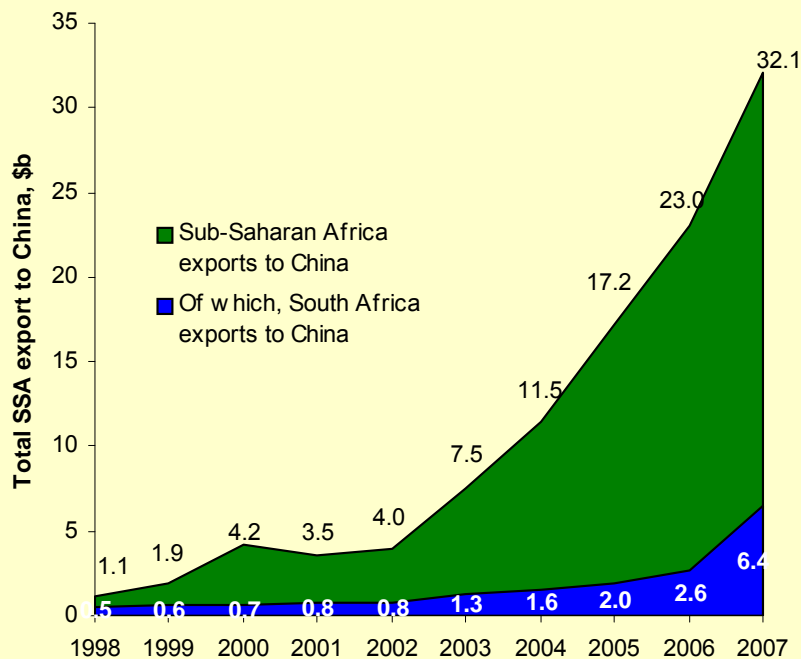
- ▶ Concentration in **resource-rich** countries (Angola, DRC, Chad, Zambia, Sudan), but 35 countries in SSA benefit
- ▶ Small compared to OECD and small as a share of overall Chinese FDI (3%, 2006), but **significant for Africa**

# Benefit #3: Trade and Integration

- ▶ Africa currently only has 0.906% share of world's exports (SA alone half of that - 0.465%)
- ▶ China's imports have been growing by 16% p.a. since 1990 – major source of demand for developing countries



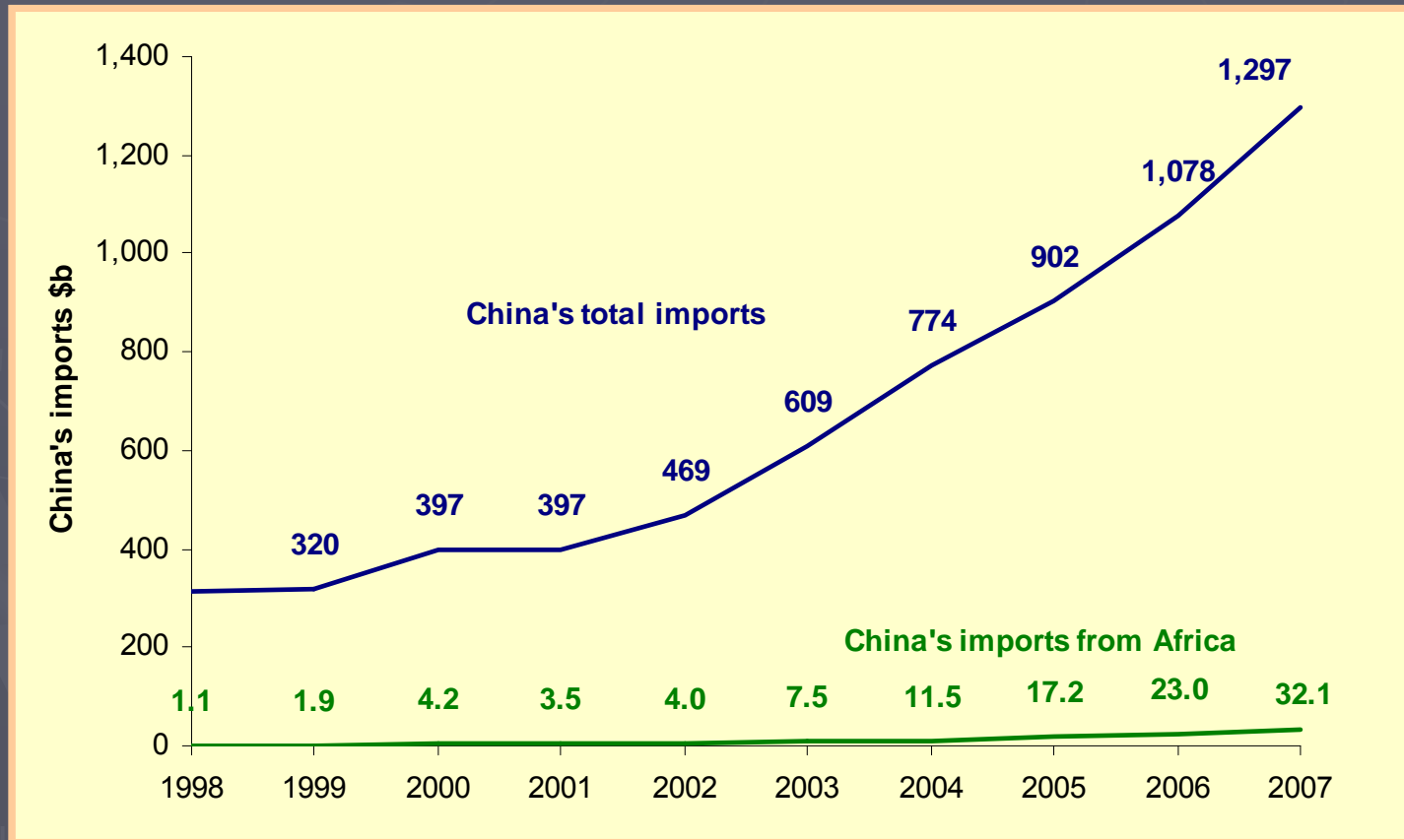
# Since 2002, SSA's exports to China double every two years while imports from China also increase rapidly ...



Sources: IMF Direction of Trade



... however, SSA's exports to China, while increasing, account only for 2.5% of total China's imports

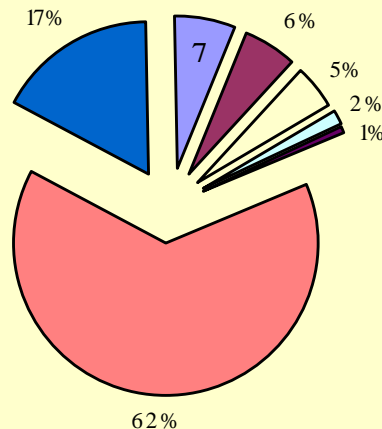


Sources: IMF Direction of Trade



# Africa exports to China is also still highly concentrated...

Africa's merchandise exports to China,



- ☒ Agricultural Raw materials
- ☒ Manufactured materials
- ☐ Textile, apparel and footwear
- ☐ Machinery and Transportation Equipment
- ☒ Processed food and beverages
- ☒ Oil and Natural Gas
- ☒ Ores and metals





# Benefit #3: Trade and Integration

## ► Key question:

Can Africa benefit from an even more open trade regime in China in the future ?

## Plus:

- Chinese support for 3-5 economic cooperation zones in Africa and
- for regional integration within Africa

# Africa Benefit #4: Economic and Financial Diversification

- ▶ Africa's exports are still **heavily concentrated** in few markets (Europe, North America)
- ▶ FDI on the continent is also **heavily concentrated**
- ▶ **Aid** still makes up a large share of revenue in many African countries

.... More trade with China and greater Chinese investment will **help Africa diversify** its current trade and investment patterns.



# Africa Benefit #5: "South – South"

Hypothesis: there will also be **non-financial**, less measurable benefits

- ▶ Potentially higher **relevance** of advice and experience?
- ▶ Strengthen solidarity and common "voice" in multilateral systems, in turn improving **quality of global decision making?**



# Summary

- ▶ China – Africa relationship occurs in a context of a changing Africa
- ▶ Five main benefits for Africa: expertise, investment, trade and integration, diversification and “South – South”
- ▶ Important lessons from China (with equally important caveats): focus on rural growth plus strong public institutions which are willing to learn, avoid rising inequality, pollution
- ▶ SA a key player in Africa’s development



# Thank you for your attention

