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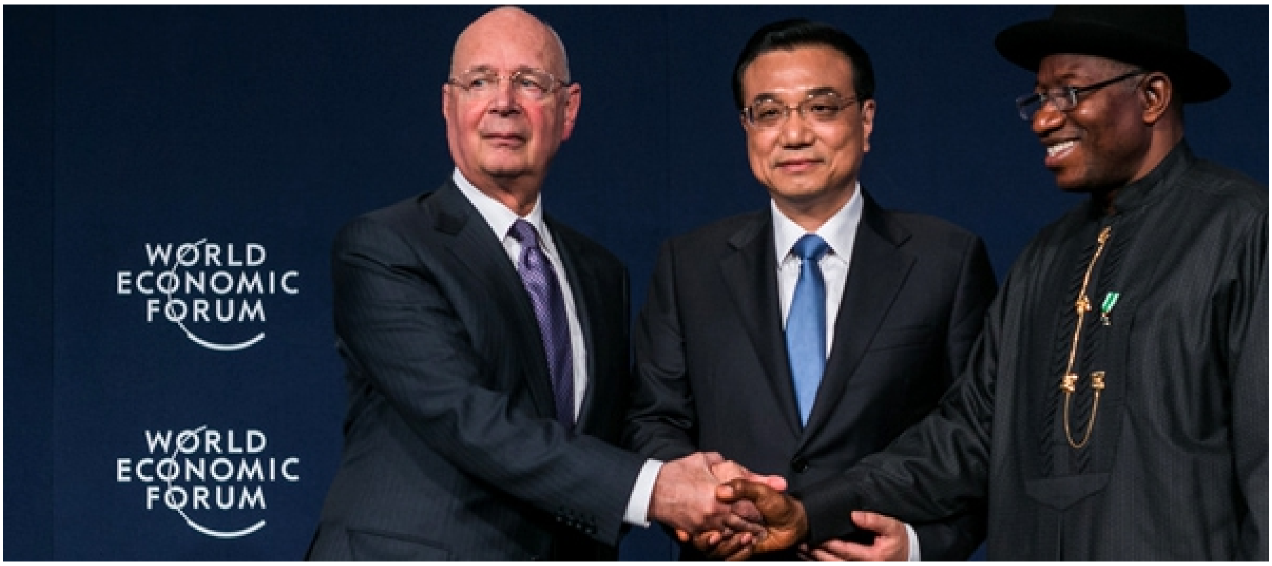
Investment, resources solidify Sino-African ties

Written by Christopher Wood



[L-R] Klaus Schwab, Executive Chairman of the World Economic Forum, Li Keqiang, Premier of the People's Republic of China and Goodluck Ebele Jonathan, President of Nigeria at the World Economic Forum on Africa in Abuja, Nigeria, 7-9 May 2014.

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The visits from Chinese President Xi Jinping and Premier Li Keqiang are viewed as indicative of Africa's rising importance in the global economy, and of China's efforts to become closer to Africa.

In general, these visits are seen as very positive signs. When such powerful leaders prioritize Africa it demonstrates the importance of China's relationship with the continent. However, many people also see this as a demonstration of Chinese attempts to secure access to Africa's vast mineral wealth, trading with the continent to obtain the coal, iron and other commodities needed to fuel China's rapid development. This is viewed both positively and negatively.

Positively, China is seen as a new and growing market for exports of commodities, which remain Africa's most important traded goods.

Negatively, there are concerns that Africa's relationship with China could mirror that of Africa's relationship with the West, in which Africa sells basic commodities but buys finished manufactured goods.

China has invested extensively in infrastructure and I believe this is one of the best aspects of the Sino-African relationship. The African continent desperately needs all the infrastructure development it can get. A lot of this investment has been structured to benefit China, either developing infrastructure to help ship commodities back to China, or using infrastructure commitments to win political capital in order to gain more access to these commodities. This is hardly surprising, but rather reflects the type of mutually beneficial relationship that is normal in international affairs. However, a few structural changes could still be made to improve the benefits of Chinese investment.

First, China can invest more in improving infrastructure networks (roads, rail) between African states. Most development at the moment moves from the inland toward coastal ports. But improving inter-Africa linkages could help African countries trade with each other and would help China access the capital goods from other African countries which are needed to develop mines and other businesses.

Second, assurances could be offered that Chinese funded infrastructure development employs local Africans and uses local companies and resources. Of course there is a very important role to be played by Chinese engineers and companies, but often these infrastructure developments give too much preference to Chinese labor and companies. Africa must also play an important part in its own development.

Chinese investment brings more choices to the continent. Instead of only being able to deal with Western countries or international organizations like the World Bank, African states can now find alternative sources of investment that deal with different areas and have different conditions.

Investment also brings better relations with China. China is going to be the world's leading superpower very soon, and Africa wants to build a close friendly relationship with the country. Investment helps with this.

Last, investment from China helps establish trading networks. Currently, African exports to China are overwhelmingly commodity-based, but as Africa diversifies and China becomes richer and starts consuming more, there are going to be opportunities for Africa to sell more manufactured goods to China. When that happens, Africa will be able to make use of the same ports and railway lines that China built to export commodities, and this will make African exports more competitive in the booming Chinese market.

Of course, the current Sino-African relationship isn't without risk at present. Complications stemming from China's economic slowdown could weigh on African rates of economic growth as well, particularly as this comes at a time when other big emerging countries - including Brazil, India, Russia, Mexico, Indonesia, Nigeria and Turkey, to name just a few - are also losing momentum amid the unwinding of the US Federal Reserve's quantitative easing program.

However, I believe this could also be an opportunity for Africa to focus its attention on moving away from commodity-based economies. High growth rates recently have still been too reliant on commodities and slowing Chinese growth might highlight the importance of diversification. Africa must eventually follow the Chinese-example of industrialization and manufacturing-led growth, and slowing Chinese growth might encourage this to happen soon.

Christopher Wood is a researcher in the Economic Diplomacy programme at the South African Institute of International Affairs.
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