

# Some Reflections on Expanding Sino-African Trade and Economic Cooperative Relations in the New Century

(A point of view from a Chinese scholar)

Zeng Qiang

## Introduction

Human society has entered a new century and a new millennium as well. Confronted with the impending waves of economic globalization and an unjust world order, China and Africa are faced with the responsibility of speeding up their respective economic development. As the largest developing country and the largest developing continent in the world respectively, China and Africa should strengthen their trade and economic cooperation on a comprehensive scale, which is the optimum strategic option for both parties. It is of vital importance for both sides to realize their common economic development goal in the 21<sup>st</sup> century. Therefore, we should look upon Sino-African relationships from a grand strategic and cross-century perspective.

As both China and Africa belong to the Third World and have similar historical experiences of oppression and exploitation by colonialism and imperialism, we have had every reason to develop close relations and support each other in the struggle against neo-colonialism and hegemonism and in our common drive for development. The past 50 years or so have

witnessed great growth of firm and friendly relations between China and African countries. At the turn of the century, China and Africa further strengthened their political and economic relations with one another. One may have seen frequent exchanges of visits by high level personnel from both sides and the successful convening of the China-African Cooperation Forum last October in Beijing, all of which have provided a solid footing for the Sino-African partnership to grow in the new century.

As the new century is unfolding, China and Africa need to further consolidate their strategic partnership so as to create a favorable environment for their common goal of development. Though the Sino-African political relations are of great importance, I am going to confine my discussion only to how to improve China's trade and economic relations with Africa in the new century, which is no less important.

## Striving to Improve China's Trade Relations with Africa

China's relations with Africa can be traced back to the 10<sup>th</sup> century BC, when China

started indirect trade with Egypt. In the Ming Dynasty (from 1368AD to 1644AD), the great Chinese traveler Zheng made seven voyages abroad, of which three reached the eastern coast of Africa. The founding of the People's Republic of China in 1949 opened a new chapter in Sino-African friendship. The past 50 years or so have witnessed great development in Sino-African relations, both political and economic.

Since the establishment of normal trade relations in early 1950s, Sino-African trade relations have experienced great development. From 1950 to 1991, the annual trade volume between China and Africa increased greatly from US\$12m to US\$1.4bn. Since 1991 when China carried out the strategy of market pluralism, Africa has become one of the key markets that China seeks to explore. As a result, Sino-African trade relations have improved further ever since. In less than 10 years from 1991 to 1999, the annual trade volume between China and Africa increased nearly five times from US\$1.4bn to US\$6.48bn. In 2000, Sino-African trade volumes exceeded US\$10bn mark for the first time in history (US\$10.5bn). As far as trade increase is concerned, we have really gained a marvelous achievement in expanding trade with Africa. But if a thorough analysis is made, the findings will reveal that there is much to improve in China's trade relations with Africa.

Now the outstanding problems that exist in China's trade relations with Africa are as follows:

- a) Trade volume between China and Africa is relatively small. Take the trade volumes of 1998 and 1999 for example, which accounted for only 1.7% and 1.8% respectively in China's total foreign trade, while it registered about 2% of Africa's
- b) Trade imbalance has become increasingly prominent. Since China established trade relations with African countries, she has been enjoying a big trade surplus except for one or two years. Since the 1990s, with the rapid expansion of trade with Africa, trade surplus in China's favor has rocketed from US\$0.56bn in 1991 to US\$1.73bn. In 1998, China's trade surplus even exceeded US\$2.58bn, accounting for nearly half of the total bilateral imports and exports that year. The huge trade surplus hinders expansion of bilateral trade relations.
- c) Trade structure needs to be improved. The export products of China to Africa are mainly textiles, garments, small hardware and light industry commodities, whose added value is rather small. Though the percentage of machinery and appliances with high added value has increased from 36.2% to 39.5%, it is still very small in proportion.
- d) Trade coverage is not wide enough. The trade volume between China and fourteen African nations accounts for 80% of China's total trade volume with Africa. In 2000, China's trade with South Africa was about one-fifth of her total trade volume with Africa.
- e) The quality of product is not absolutely guaranteed. Although China's commodities vary both in quantity and category on African markets, quite a few of them are "cheap but not elegant." This

total import and export volumes. This figure does not comply with the good political relationship and mutual economic complementarity between the two sides. China and Africa need to further tap their trade potentials.



produces a negative impact on the overall reputation of China's products on African market.

Then, how to better China's trade relations with Africa? The writer of this paper believes that the focus should be laid on objectively analyzing and recognizing the specific features of the African market and making a comprehensive plan for trade relations with Africa.

With 53 independent nations and an area of 30m square kilometers, Africa has a population of over 700m. Besides, it is abundant in resources and well-known as the "storehouse of natural resources" of the world. Since 1994, the overall political situation in Africa is tending towards stability with a good momentum of continuous economic growth. From the long and developing perspectives, Africa is in indeed a large market with great potentials. With the steady economic growth and increase of living standards, the market scale will undoubtedly increase accordingly. However, we should clearly recognize that the current African commodity market is still very limited and the Western countries have held over 65% share of it for a very long period of time. In recent years, such Asian and African countries as India, Malaysia, Singapore, Korea South Africa and Egypt have also expanded their export to Africa. The basic characteristics of the current African market are large in potential, limited in reality and intense in competition. Based on the above analysis, we should pay attention to the following issues in our trade with African countries:

1. *Getting actively involved in African markets, while avoiding the tendencies of seeking short-term successes and quick profits.*

On the whole, Africa belongs to a resource-

based economy, which is chiefly relying on exporting agricultural and mineral primary materials and importing manufactured goods. At present, more than half the export incomes of fourteen African countries come from a single primary product; over twenty African countries rely on export earnings of two or three primary products. Therefore, most African countries cannot spend more than what they earn by exporting primary products. Recently, the substantial decrease of the price of primary products on international market has exerted a negative impact on the export income of African countries. The decrease of export earnings seriously restrains the growth of the import capacity of African countries. Currently Africa's import market capacity maintains at the level of over US\$100bn. Although African economy has taken on a momentum of sustained growth in recent years, this kind of growth is basically one of a gradual recovery nature and at a rather slow pace. As a result, the import market of Africa will not expand rapidly in the short-term. It is estimated that it will remain in the range of US\$100bn to US\$150bn for some years to come.

In view of this objective reality of the African market, we should take the following aspects into serious consideration when planning our trade with Africa:

- a) Guarding against the unrealistic idea of substantially expanding trade with Africa in the short-term. We should expand our market share in Africa one step at a time, based on good quality and reputation.
- b) Arousing the enthusiasm of Chinese enterprises to go to Africa, striving to push a number of large-scale enterprises with good reputation, products of well-known brand and great competitiveness to Africa, so as to get into the mainstream of

the African economy and set up a good image of Chinese entrepreneurship.

- c) Actively making adjustment in our export product structure so as to try to increase the proportion of machinery and electrical appliances and products with high added value and, at the same time, do a good job in relevant services such as after-sales service, maintenance and supply of spare parts.
- d) Governments at all levels should guarantee the quality of the enterprises, which wish to go to Africa and prevent notorious enterprises or individual businessmen from going to Africa in order to stop products of bad quality flooding into the African market.
- e) The quality of export products is the key to open and occupy markets abroad. We should do whatever we can to make our products inexpensive, elegant, practical, good quality and diversified, and export products, which truly represent China's craftsmanship to African market.
- f) Increasing import from Africa in an appropriate proportion so as to reduce the trade deficit on the African side. This will not only be conducive to resolving trade imbalances but also conducive to the expansion of trade volume between China and Africa. I am very pleased to see that China's import value from Africa last year surpassed that of exports by over US\$500m.

## II. *Aiming at regional markets and striving to expand trade coverage in Africa.*

Confronted with the ever-growing trend of economic globalization, African countries are demanding unity and regional integration so as to overcome the negative factors such as

small economic scale and market capacity. Since the 33<sup>rd</sup> OAU summit held in 1997, every following OAU summit has put the issue of speeding up the construction of the African Economic Community at the top of its agenda. In July of last year, the 36<sup>th</sup> OAU summit was held in Lome, Togo. The representatives of this summit signed the "Draft Charter for the African Union", putting the integration of the African economy a step further. The fifth special OAU summit held in Syrte, Libya last March has brought the African Union a step forward. At present, the required two-thirds approval has been obtained. Now, we are expecting the formal commencement of the African Union. Meanwhile, the ten major African regional economic organizations are speeding up the construction of their regional integration. Before the founding of the African Economic Community, these regional organizations will be the chief players in the African economic arena. In order to promote China-Africa trade and economic cooperation, the Chinese government has set up eleven investment and trade promotion centers in Africa since 1995. These centers are located in Egypt of North Africa, Mali, Guinea, cote d'Ivoire and Nigeria of West Africa, Cameroon and Gabon of Central Africa, Tanzania and Kenya of East Africa and Mozambique and Zambia of Southern Africa. Currently, these "centers" have opened for business one after the other, providing such services for Chinese and African enterprises as consulting, allocating goods, acting as a go-between and seeking business partners etc. These centers have played an active role in promoting Sino-African trade and economic relations. However, there are some shortcomings with regard to the geographical distribution and function of the centers, which need to be improved.

### I. *The establishment of the centers should*



*be in line with the development of African regional economic organizations.*

When establishing such high level trade and economic institutions as the centers, we ought to take into account the balance of their geographical distribution as well as the comprehensive conditions of the countries in which they are to be set up, with the radiation capacity to the neighboring countries in particular. As far as the current situation is concerned, the distribution of the centers is not ideal. Some centers are closely adjoined. Others are not good with regard to the comprehensive conditions of the relevant African countries. We have not set up any center in such countries that have superior comprehensive conditions and radiation capacity as South Africa. We ought to make adjustment to the distribution of the centers in accordance with the characteristics of the development of regional economic organizations in Africa so as to make the centers play their full role of "fanning out to the region" and distributing Chinese goods to every corner of Africa.

*II The function of the centers ought to be enriched.*

African petty businessmen usually order small amounts of goods and are accustomed to making a deal after seeing the goods, and paying on delivery or after sale. This adds difficulty to trade with Africa. When these centers are established, they do facilitate export to Africa in providing service of allocating goods. If the centers can provide more convenient services in account-settlement, market survey and analysis, and legal consulting, I believe that our trade with Africa will move a step further.

### **Increasing Investment in Africa**

Africa is not only a commercial market with huge potentials, but also an investment market that needs to be fully tapped. Compared with

trade, investing in and being directly involved in African economic construction plays a more conspicuous role in consolidating and strengthening China-African friendly and cooperative relations. And this is most welcomed by African countries. Recently, as the overall political situation in Africa tends to be stable, most African countries put economic development as their top priority on their agenda. They are now carrying out an opening up policy, trying to improve their investment climate, actively attracting foreign investment and striving for technological transfer. Many African countries are eager to enhance cooperation with China in the fields of agriculture, processing, manufacture and mining, and in the metallurgic and service industries. It is the right moment for Chinese enterprises to invest in Africa.

Although many Chinese enterprises have begun to invest in Africa at the present stage, few of them are large-scale enterprises. With the deepening of China's reform and continuous development of economic globalization, "going abroad" to develop an export-oriented economy has become the major task in Chinese business circle, which everyone should have to face squarely. But investing in Africa is not an easy job. It needs to be strategized as a whole with every detail carefully studied and planned in order to maximize the favorable factors and minimize unfavorable ones and in mutual interest. In short, investing in Africa should bear Chinese trait and in the fields where China has relative advantages. Such cooperation should open new channels for South-South cooperation.

*I. Agricultural cooperation has a bright future.*

With a vast land area, Africa is rich in natural resources and has a solid basis for agricultural development. Currently, most countries in Africa are still agricultural countries with a



high population proportion engaged in agriculture. Many countries have a vast but thinly populated area. The cultivated land area accounts for a very small percentage of their total arable land area, with some countries accounting for 10% to 20%. Although Africa has favorable conditions for developing agriculture, its backward production technology, extremely low productivity; low capacity to cope with natural disasters as well as regional and local wars has resulted in food inefficiency. Furthermore, most African countries are food deficient, relying heavily on outside assistance. Of 86 food deficient countries in the world, Africa makes up half the figure. Of 33 nations that are most in need of food assistance, there are 13 in Africa. According to a report by the FAO, there are over 20 million people in Africa needing urgent food assistance.

According to recent World Bank statistics, about 45% of the African population (around 340 million) live below the poverty line, while the poverty proportion in the sub-Saharan Africa is as high as 51%. In order to eliminate poverty, African countries have put forward a set goal to reduce half of its poverty population by the year 2015. To get rid of poverty, the first thing to do is to provide enough food and clothes. Therefore providing enough food for its people is the big challenge that every African country has to face in the new century. China is a big agricultural country. Though its arable land accounts for only 7% of the total arable land in the world, it feeds a population that accounts for 22% of the world's total. China has many strong advantages in intensive cultivation, agricultural irrigation, seed breeding, cultivation techniques, prevention of plant diseases and pests, and the development and application of medium and small-scale farm tools. All of these are very helpful to African countries to develop their agriculture. China

and Africa need to explore ways of cooperation to boost Africa's agriculture and relieve the pressure of food shortage.

My suggestion is: the Chinese government and enterprises can select some countries with better basic conditions to set up food production bases either by leasing or contracting or even purchasing local land. These bases will be run by Chinese managers and administrators and worked by local labor. We can also think of starting joint ventures in agricultural development or combine aid programs with food production. The food thus produced can be sold in the local market. In times of natural disasters, the food produced there can also be given to the disaster stricken countries as assistance. Such cooperation in agriculture can produce other benefits:

- a) Through the construction of food bases in Africa, we can promote diffusion of our farming techniques and farm tools in Africa, such as well-drilling techniques and equipment and irrigation techniques.
- b) Apart from food production, the bases can also plant various kinds of cash crops, engage in animal husbandry and process agricultural sideline products, all of which can help diversify the local economy.

## *II. Actively participating in the development of African processing and manufacturing industries.*

Since independence, African countries have successively adopted "import substitution" and "export-oriented" strategies in the hope to set up their own national industrial systems. Because they deviated from Africa's reality, both policies did not produce satisfactory results. Recently, African countries have universally emphasized the processing of primary products from agriculture and mining

in order to add new value to their products and encourage domestic enterprises to develop a manufacturing industry that uses local raw materials that can be sold in local markets. Some countries even set up export processing zones to absorb investment from home and abroad by providing preferential investment policies.

China is a developing country that also needs large amounts of funds to develop its own economy. As a result, it is hard for China to invest a lot of money in Africa. Therefore, Chinese enterprises at present stage ought to take technology and equipment investments as the key form of investment and money investment as an auxiliary one. That is to say, we should invest in the form of our well-developed technology and equipment in Africa and cooperate with local partners in utilizing local resources and exploiting the local market. Some of the products can also be exported to the European and American markets via African countries. This is a mutually beneficial cooperative way, which is conducive to African economic development, creating more jobs for African countries and African industrial development on one hand. On the other hand, it can motivate the export of China's technology and equipment and semi-manufactured goods. This is a form of win-win cooperation.

At present, Chinese enterprises can consider the following three forms of investment in processing and manufacturing industries in Africa:

- a) Transferring production or assembly lines to Africa and selling their products in the local market. Those production lines transferred to Africa to produce TV sets, motorbikes, electric home appliances,

small-scale mechanic and electronic products and farm tools have achieved remarkable results, not only increasing job opportunities but enriching local market as well.

- b) Transferring well-developed technology and equipment to Africa and assisting African countries to develop local resources. For instance, China is relatively advanced in technologies in textiles, papermaking, construction materials, timber processing, furniture making, plastic products, food processing and food preservation. The equipment of the above fields is also suitable to the concrete needs of African countries. Their products can occupy a great share in African markets.
- c) China's competitive enterprises are encouraged to actively participate in international competition by setting up branch companies in the export processing zones of some African countries with better overall conditions. This can expand our participation in the world economy and accumulate experiences for more enterprises to go abroad later as well.

### *III. Increasing investment in resources exploration and tapping in Africa.*

China is a resource-rich country, but on a per capita base it is very poor. With economic development accelerating, China's need for strategic resources grows at a surprising rate. Last year, China's oil import grew by 91.9% and iron ore import by 26.6%. As Africa abounds in resources, cooperation between China and Africa in this aspect has great potentials, which should not be neglected.