New Perspectives in Economic Development: The Role of China in African Development

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Africa still has some of the poorest nations in the world despite over half a century of efforts by Western countries and institutions. Today, the Chinese have a stronghold in Africa and are working to help African nations develop. The Chinese approach is diametrically opposite to the Western approach. Where the West has failed, the Chinese hope to build new, vibrant economies. They also intend to be there for the long term. While early results indicate significant progress, the success of the Chinese effort will depend more on the capacity of African countries to capitalize on the opportunity to develop.

INTRODUCTION

Africa, The Dark Continent, is finally awakening. Over the centuries, the continent has provided the resources needed by the developed world while it has remained essentially undeveloped. Apart from raping the continent of resources, the developed world created ongoing political, racial, religious, ethnic and tribal strife by partitioning the continent haphazardly. Such turmoil persists all over Africa and has retarded efforts towards development. Where the colonialists and neo-colonialists failed, China, a developing country itself, has stepped in to help pull the African continent out of the morass of poverty, deprivation and disease.

THE STATE OF AFRICA PRE-CHINA

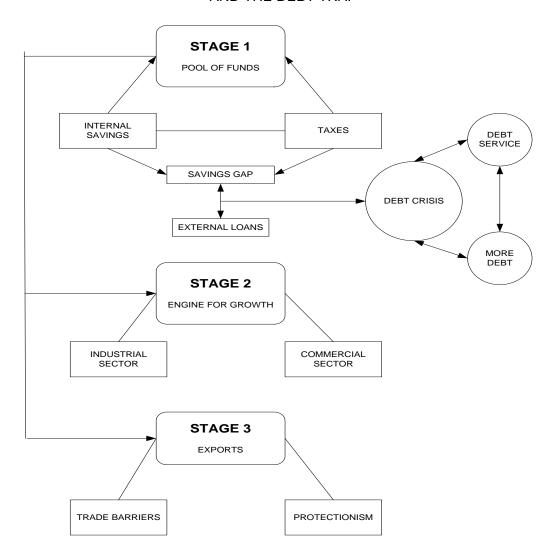
Most African countries used to be colonies of European countries (Britain, France, Spain, Portugal, Germany, Italy, France, Netherlands, and Denmark, Colonialism provided the colonizing nations the opportunity to take whatever resources they needed from their colonies. As Nkrumah stated his book "Africa must unite", "a country has very restricted economic links with other countries. Its resources are developed only insofar as they serve the interests of the colonial power" (Nkrumah, 1963). None of these colonizing nations built any significant infrastructures in their colonies. Whatever little infrastructure was built only served to transport the resources of the colony to the colonial master. If the colonial powers had left their colonies with basic infrastructure, African countries would have been on the path to development right from the day of independence.

Independence was, ostensibly, supposed to make the African ex-colonies independent, meaning selfsustaining. However, no African country has truly been independent because the ex-colonial masters never gave them real independence and continued to interfere in their affairs, either directly or through proxies. The African countries were still economically dependent and many have remained politically dependent. France still sends troops to its ex-colonies (ex. Ivory Coast and Chad) and Francophone countries in Africa still use currencies that were tied to the French Franc before France adopted the euro. The former colonies have remained constrained in their efforts to develop because their colonial masters have always insisted on providing them aid rather than opportunities to develop healthy trade. Figure 1 shows the simplistic three-stage development model African countries were supposed to follow.

FIGURE 1

THE THREE STAGES OF THE DEVELOPMENT PROCESS

AND THE DEBT TRAP



This model is the summation of the export-oriented development argument that the Asian Tigers and China, the biggest Tiger of them all have followed. In stage 1, African nations were expected to develop a pool of funds to support the development effort. These funds would come from internal savings and government earnings and taxes. However, people in the African countries lived at the subsistence level and could not save because there was no discretionary income. Also, government tax collections were negligible because there was very little economic activity to be taxed and no mechanism for collecting taxes. Governments were struggling just to meet the most basic needs of their people.

The model rightfully factors in this lack of ability to generate the necessary funds needed for development. There was expected to be a gap between what could be developed internally and what was required to finance development. This savings gap (Harrod, 1936; Domar, 1946) was to be closed with borrowing from external sources. The combination of internal resources and external borrowing would propel the nation to the second stage of development that would create an engine for growth.

This engine for growth would be developed through the creation of an industrial and a commercial sector. These sectors would draw the excess and unproductive labor from the agricultural sector into the more productive industrial and commercial sectors that require higher skill levels and are more productive (Lewis, 1955). The increased economic activity would enable the government to collect taxes (income, sales) and the wage earners to begin to create a pool of savings since the higher earnings would lead to more discretionary incomes. The funds generated by the increased economic activity would be used to support more economic activity, creating a perpetual, self-sustaining cycle (more people from agriculture into industry and commerce; more discretionary incomes; more savings, more investments, *ad infinitum*).

The nations would move to stage 3 as the industrial and commercial sectors meet the needs of the population and also produce surpluses that would be exported. The exports begin a cycle of export-oriented development that lead to further expansion of the economy. This is the pattern used by the Asian Tigers and China. This model has not worked for Africa.

Debt Trap

Most African countries did not get to the second stage of Figure 1. Rather, they got caught in a debt trap (allAfrica.com, 2010) they could not escape from. The external borrowing that was supposed to close the savings gap led to a vortex of endless borrowing to finance debt service, which only increased the total debt without bringing down the principal. The infrastructure that was supposed to be developed to support the engine for growth was never developed. The industrial and commercial sectors were never developed. The export-oriented development never happened.

In their efforts to resolve the debt crises, the World Bank and IMF only exacerbated the problem ensuring that these nations would never develop. Loans always came with onerous structural adjustment regimes that left the countries worse off than they were before and resulted in political strife that drove away whatever little investment there was in these countries. Developed country loans were also tied to good behavior – political correctness, and human rights mandates. The end result was that the debts continued to pile up and most African countries spent the better part of their incomes on debt service while borrowing more.

Debt Forgiveness Programs

Many debt forgiveness steps were only replaced by more debt since the countries could not build the necessary infrastructure to create engines for economic growth. To break the debt cycle, the HIPC (Highly Indebted Poor Countries) program was developed. Even this program came with restrictions. Without the forgiveness of debt, many of the developing countries simply cannot develop. The World Bank and International Monetary Fund (IMF) identified only 40 countries that met its criteria, as being "Heavily Indebted Poor Countries" from a large pool of countries with unmanageable debt and in desperate economic conditions.

Closed Markets and Protectionism

In addition to the debt trap, free-trade is not free where African countries need access to developed country markets. The markets of developed countries have remained closed to African countries that have been advised by experts from the developed countries to pursue export-oriented development. The two main issues here are market access and terms of trade.

The developed countries are only interested in the basic raw materials (agricultural, oil and minerals) that African countries produce. Even for these, except notably oil, market access is closed. It is notable that the theme of the Doha Round was access of developing country goods to developed country markets. Developed countries granted selective access to their markets based mainly on political factors. The Asian

Tigers received preferential treatment while the same access was denied to African countries. A WTO report noted that:

... after eight GATT Rounds, certain tariffs continue to restrict trade, especially on exports of developing countries (An) example is "tariff escalation", in which higher import duties are applied on semi-processed products than on raw materials, and higher still on finished products. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate (WTO, 2002, 2005).

The Doha Round negotiations started in 2001 and have been crawling along ever since, with meetings around the world and deadlines constantly being missed. Originally the deadline was set to be January 2005 but the talks reached deadlock during meetings in 2003, 2005, 2006 and 2007. They have collapsed three times over the last seven years (Balakrishnan, 2010)

Thus, even where the African countries had something to sell, they were at a disadvantage because they could not gain access to developed country markets. Where they did get access the terms of trade were against them. They were forced to sell basic agricultural raw materials, with little or no processing or value-added, in exchange for the high value-added products of the developed countries. (How many tons of coffee beans do you need to pay for one bulldozer?)

Political Interference

The African countries were also subjected to political interference from the developed countries. Declassified United States and British intelligence records show the active involvement of the developed countries in the overthrow and/or assassination of elected governments (Nkrumah in Ghana, Lumumba in Zaire), and support of dictators in the suppression of their own people as long as they got access to the countries' resources. Such interference has only served to move the affected countries many decades back along the development path. Thus, until the Chinese came on the scene, African countries had no opportunity to develop.

CHINESE ACTIVITIES IN AFRICA

China is very much like the developing countries of Africa; it is itself in the development process. Unlike the African countries, China enjoyed most favored nation (MFN) status with the developed countries which enabled it to have access to developed country markets and to engage in export-driven economic development. Thus, China, like the other Asian Tigers, was able to escape the debt trap (with its onerous structural adjustment regimes and constrained lending by the World Bank, IMF and developed countries) into which the African countries fell. China moved beyond the first stage of development (agriculture) to the second stage of development (industrial production) and developed a large pool of funds by running large positive trade balances with the rest of the world. China's development efforts were not constrained by external political interference in its domestic affairs.

China could have done what the developed (Western) countries have always done to the developing countries – use them as sources of raw materials, as markets for its exports, interfered in their domestic political affairs and actively tried to constrain their development efforts. Rather, China has chosen a partnership of mutual development with Africa. The characteristics of the Chinese model of development are discussed next. This includes the development of both physical infrastructure (roads, ports, factories) and social infrastructure (education, health, skills training) that complement each other and facilitate overall national development.

State-Led Economic Development

Most African countries can readily identify with China's state-led approach to economic development. China has a state-led economic development effort by default because there was no private sector to lead the country's development. This is similar to the initial development efforts of newlyindependent African countries where the governments had to lead the development effort because there were no local business people who were sophisticated enough to lead the effort. This is because the colonial powers only educated and trained a handful of people to support their objective of getting resources out of the country. A classic example of government-led economic development in Africa was the Nkrumah era in Ghana which focused on rapid industrialization, to create the goods and jobs that would economically empower the people (New African, 2006). Ghana was the first sub-Saharan country to attain independence. Following the three-state model in figure 1, Nkrumah attempted to move the nation to the second state of development. Within a period of nine years (1957 to 1966), major infrastructural projects were undertaken. These included 68 state-owned factories, the Akosombo Dam to power a hydro-electric plant, the Tema Port, a motorway to connect the port city of Tema to the capital Accra, an aluminum smelter, gold refinery, an Air Force and a Navy; the first batch of policewomen (twelve of them); a merchant navy (the Black Star Line); an airline (Ghana Airways); the Ghana News Agency (GNA); the City Hotel in Kumasi, the Meridian Hotel at Tema, the Star Hotel in Accra, the Inter-Continental Hotel in Accra; the Trade Fair, the Adomi Bridge, the Ghana Atomic Energy commission; the Aside from the physical infrastructure, there was also the development of State Housing Corporation. social infrastructure -hospitals, polyclinics, elementary and secondary schools, teacher training colleges, the Ghana Medical School, the faculty of law at Legon, the professional law school at Makola, the Ghana Academy of Arts and Sciences, Cape Coast University, Kwame Nkrumah University of Science and Technology, the Institute of African studies.

Many such government-led infrastructural development projects occurred all over Africa as the newly-independent nations struggled to lift their peoples from political independence to economic independence. Many of these efforts were truncated by *coup d'etats* and assassinations instigated by the Western countries.

Natural Resources for Developing Infrastructure

There is no gainsaying the fact that China is interested in Africa's natural resources and markets to support its own development (Moss & Rose, 2006; ccsinfo@sun.ca.za, 2010). Eilerd (2009) reports 450 Chinese-owned investment projects in Africa with 46 percent in manufacturing, 40 percent in services and 9 percent in resource-related industries. This interest is similar to that of Western countries. The key difference is that China is helping African countries to exploit their natural resources and to develop the necessary infrastructure to facilitate this. Kurlantzick (2006) notes that the World Bank and most bilateral donors stopped funding infrastructure projects "decades ago" and Chinese construction firms produce the much needed infrastructure at 25 percent the cost of Western firms. It is also helping the African nations develop so the purchasing power of their people would increase making them viable customers for China's goods. This latter point was never part of the Western equation that only sought to exploit the resources of African countries without ensuring increased standards of living for the people.

Appropriate Technology and Technology Transfer

The decade of the 80s saw the needless and protracted debate over what was the appropriate technology to send to developing countries. There were arguments about the inability of the local people to use very expensive and complex technologies. The debates were purely academic since no appropriate technologies were developed. In many cases, the complex technologies were sent to the developing nations with expatriate staff to operate them. Once a project was completed the equipments became white elephants since there was no transfer of technology involved and there was no other use for the equipment.

The Chinese, on the other hand, use cheap and non-complex technologies in their projects in Africa. After all, China itself is a developing country that uses more labor-intensive methods close to what African countries use and the technology involved is easily transferred to the locals.

Cost Effectiveness

Equipment for projects (bulldozers, excavators) are fully depreciated by end of the project. Chinese managers and workers are paid much less than managers and workers from other countries. Timely completion of projects means no cost over-runs and faster utilization of the completed project. The longterm orientation of the Chinese means they are not looking for immediate returns but are building for the future in direct contrast to the Western orientation of seeking immediate returns. Chinese projects tend to cost a quarter of the same projects undertaken by Western firms.

Hands-On Management Style

Chinese managers and workers are actively engaged in all aspects of the project. They live onsite with their workers and are closely involved in all aspects of the projects.

Risk Tolerance

The Chinese approach to risk is summed up by Wu Zexian, Chinese ambassador to the Democratic Republic of Congo (DRC): "Other countries say, This country has a lot of problems. We say, "This country has huge potential." (Time, 2010). In line with this, several Chinese entrepreneurs invest in countries Western firms would consider too risky. They also locate in areas of countries that would normally be considered unsuitable for business risk-taking.

Trade and "No-strings" Aid

China trade and aid increased ten-fold between 2000 and 2007 to \$73 billion and is expected to reach \$100 billion in 2010. China has set up special aid programs to support African entrepreneurs. These aid programs come with no preconditions unlike aid from Western countries that impose conditions, especially tied to human rights (Chen, 2010). The China-Africa development fund was established in 2007 by the Chinese government with a capitalization of \$5billion to support business partnerships between Chinese and African entrepreneurs. A key point in the development model presented earlier is access to markets for developing country exports. It is the lack of market access that has stunted the development of African countries. Access to Chinese markets provides African countries the opportunity to develop their industrial and commercial sectors and to produce surpluses for export.

No Interference in the Political Affairs of Nations

The basic tenets of democracy and protocol mandate that people have the freedom to choose their own form of government, their leaders and to run their affairs as they see fit. Whether the form of government or the chosen leaders are acceptable to other countries is irrelevant. Western countries tend to interfere in the political affairs of other countries. China's Africa Policy (2010) precludes interference in the political affairs of countries

Training African Professionals

Part of Africa's development problems relate to the unavailability of adequately trained professionals in economic management. Several projects across Africa have failed because the necessary skills required to keep the projects running were not developed. As part of the Chinese approach to building Africa's infrastructure, China trains 3,800 African professionals per year under its African Human Resources Development Fund and has developed Chinese language programs in African universities under its Confucius Institute Project. (Kurlantzick, 2006).

Reciprocal Migration

Bevond China's activities inside Africa, there is also the exchange of people. Several Chinese have immigrated to Africa and several Africans have settled in China. Some 10,000 Africans, including entrepreneurs, are living in China's Guangzhou province in what is dubbed "Little Africa". (Radebe, 2009). There are some 5,000 African students on Chinese government scholarships studying in China (Mohapatra, 2009). Many of the Chinese entrepreneurs who have settled in Africa are not part of the

state-led effort. This exchange of people is bound to lead to better understanding and an improvement of relations between Africa countries and China.

CHINESE INVESTMENTS -- REAL RESULTS

Table 1 is a sampling of China's diverse investments and activities that span banking, construction, mining, and oil extraction.

TABLE 1 SAMPLING OF CHINESE PROJECTS IN AFRICA

COUNTRY	PROJECT	AMOUNT
Algeria	Construction of Infrastructure	\$20 Billion
Democratic Republic of Congo	Infrastructure – roads, railways, 32 hospitals, 145 health centers, two universities	\$6 Billion
Nigeria	Oil refineries	\$23 Billion
Angola	Offshore oil	\$2.5 Billion
South Africa	Banking	\$5.5 Billion
Guinea	Stadium	\$50 Million
Somalia	Mobile phones	\$14 Million
African Union	Conference centerGift	\$150 Million

In addition, China also pledged to fund 30 hospitals, 30 malaria centers and 50 China-Africa Friendship schools. The listing of projects shows the simultaneous development of several aspects of African country economies. Of particular importance is the fact that none of the projects are "white elephants" that have characterized projects in the past. These projects were not for the benefit of the people but for the aggrandizement of the status of their leaders. Because the chine undertake the construction of the projects themselves, the projects are usually completed, and there is less opportunity for the improper diversion of project funds as with Western-sponsored projects were funds were handed over to African governments that misdirected, misappropriated or simply stole the funds, ensuring that the projects were never completed.

CRITICISMS/CONTROVERSY

As with anything new effort that encroaches on the territory of others, China's activities in Africa are not without criticism and critics. Some of the criticisms are reviewed here, with author's responses:

- Non-interference in local politics this has been interpreted in some quarters as support for dictators. China's focus is not on the government in power, it is on the development of nations. Governments are temporary, regardless of how long they stay in power. Taking sides would render China's position in countries untenable every time a non-China supported group comes into power. There are clearly examples of Western governments that support dictatorial regimes and interfere in the political affairs of other countries.
- **High handedness/mistreatment of workers** -- Thornily (2000) attributes this to "a lack of experience and understanding of African business. There are vast differences between the work ethic of the Chinese and the African. Chinese Confucianism is based on respect for authority, seeking the general good rather than personal gain, hard work, compromise, and frugality. Africans have not developed a work ethic, have no concept of the value of time (time orientation),

- and seek personal interest above all else. To them, work is something to be avoided and does not have any ego involvement (pride of performance). Such diametrically opposed differences are likely to clash and lead to complaints by African workers in Africa. These differences are to be expected. Over time, as each side learns about the culture of the other (through Africans studying in China and reciprocal immigration), there should be better understanding and collaboration.
- A new form of colonialism from the East, charges former South African president Thabo Mbeki. Colonialism involves political and economic domination of a people. China, which has had dealings with Africa since the 1950s and 1960s, has never sought political domination. China has a policy of non-interference in the political affairs of African nations. If it is a new form of colonialism, perhaps it may be preferable since it helps the nations actually develop by building infrastructure, raising standards of living and providing export markets. These are all things these nations never had before.
- Underpay workers -- If pay reflects work done, then perhaps the local workers deserve to be paid less for not accomplishing much work. This may be the case because of the African's poor work ethic, the lack of high level skills and the laws of supply and demand that form the basis of prices. A BBC report notes that "there is evidence that workers are learning new skills because of the available Chinese-funded work" (BBC, 2007). With the higher skills they will command higher wages. However, if their pay is not commensurate with their output then it is for the African host governments to ensure that their workers are adequately compensated. In many cases, African governments and government officials tend to side with foreign firms because they take bribes to overlook their misdeeds and for fear of losing foreign investments (Eilerd, 2009)
- Ignore safety rules, human rights, environmental standards, and good governance. The enactment and enforcement of rules are the responsibility of government and its agencies. African governments should have mechanisms in place for dealing with violations. There is also the tendency to apply developed country standards to developing countries. Someone (or a country) on the first level of Maslow's hierarchy of needs would certainly not be very concerned about human rights and environmental needs.
- Conflicts with goals of Western donor nations China is only concerned with meeting its own development needs through helping African nations develop their natural and human resources. That, as has been clearly shown over the years, and the results of their so-called development assistance, is not the objective of Western donor countries. This difference could be likened to a choice between a loan shark who wants to have a perpetual customer and an investor who wants to help a startup build a successful business that would benefit both.
- Undermines incentives to democratize. Political systems reflect or mirror economic systems. Western countries keep pushing democracy while African people are concerned about their basic needs. Casting ballot really does not change the political system where people are uneducated, unskilled and do not understand the political systems imposed on their traditional systems. Rather than keep pushing incentives to democratize, it will be more useful to push development programs that will raise educational levels, living standards and the ability to acquire property. When people have something (tangible property) to protect they will seek the institutions that will guarantee them the types of protection they need and the political and social systems that will provide them. To reiterate, people at the subsistence level on Maslow's hierarchy may not care much about higher level needs, like democracy.
- Competition with local firms. Free markets call for healthy competition. Healthy competition makes businesses better and benefits consumers. If competition is the norm in the developed countries, why can't it be the norm in developing countries? Where necessary, governments can use the infant industry argument to protect selected industries or companies. Such protection, however, is usually detrimental since it leads to sloppy performance and higher costs and prices. Chinese firms are able to complete projects at about thirty percent less than their competitors. The inherent argument is that they are killing local companies. The more pertinent questions are:

should African countries spend 75 percent more just so a local contractor can have a project that will be completed in four years instead of the one year it takes a Chinese firm to complete it? What about the opportunity cost of not having access to the finished project for three years? How about the cost to the nation? Such competition should force local firms to learn the best practices of Chinese firms and make them more competitive. They should learn to compete rather than have projects handed to them by political cronies and corrupt government officials.

- Cannot lead to sustained economic growth and social stability. Healthy economic growth leads to social stability. Therefore, the more economic growth, the more social stability. Strife across Africa has been mainly because of lack of economic growth. The continuing strife in some African countries may be attributed to a lack of sustained growth. That is the legacy of the western method of development. The Chinese method involves the simultaneous development of physical and social infrastructure and the development of the necessary skills to run the infrastructure. It is clearly a sustainable system that swaps natural resources for infrastructure that leads to the development of an industrial and commercial sector that requires high level skills that are provided through the developed infrastructure, that leads to higher wages that lead to higher purchasing power, that leads to higher capacity to pay taxes that leads to government's capacity to service debt. The cycle continues indefinitely. That is sustained economic growth. The people of these countries are also becoming more educated and enlightened. No longer will they tolerate the dictatorial tendencies and the abuse of power by politicians.
- Another Debt Crisis? Glosny (2006) points to analyses and concludes that "Chinese aid, especially in Africa, is likely to lead to a new debt crisis in developing countries". While this is possible, it is highly unlikely. The debt crisis was created because the African countries lacked the capacity to repay their debts. The debt trap made it impossible to develop the necessary infrastructure to create an engine for growth. The Chinese involvement in Africa and the soft loans offered by China present a completely different scenario from the lending to Africa by the developed Western countries and the world bodies like the IMF and World Bank. In the case of the latter, no infrastructure was built, no technologies were transferred; in short, the lenders ensured that the debtor nations would not be able to repay the loans. The Chinese, on the other hand, are building infrastructure in African nations; they are building factories; they are giving the people skills (transferring technology) that will increase their skill levels and incomes; they are buying from African nations ensuring that they have outlets for the resources (agricultural, mineral) and exports; they are allowing African entrepreneurs to settle in and do business in China. More importantly, they are giving the African nations the capacity to repay their debts. For once, the developing countries of Africa have a win-win situation where all parties benefit. Does that mean transactions between China and African countries will be balanced? Transactions between nations are never balanced since all nations seek their own best interests and exchange resources of different values. In the case of China, its best interest lies in supporting and helping African nations develop so they can trade with China and supply the necessary resources it needs for its own development. Currently, most African countries have a growing trade deficit with China despite its favorable tax-free trading agreements. However, the increasing capacity of African countries to earn incomes from the development of their industrial and commercial sectors in addition to export earnings should put them in a better position to handle their debts.

CONCLUSION

China's activities in Africa offer the continent opportunities to develop according to the model presented in Figure 1. China is building the much needed infrastructure to drive African development – roads, schools, power generation plants, telecoms systems, computer networks. It is helping those nations endowed with natural resources to develop them and those without with trade and investment opportunities. The end result will be African countries that are able to move through the three-stage

development process by (1) developing the pool of funds for an engine for growth without ending up in a debt trap, (2) develop industrial and commercial sectors, and (3) produce surpluses that can exported to other countries, especially China. As economic development takes hold, social and environmental issues will follow in due course. According to Maslow, people first seek to satisfy the lower order needs before seeking the higher order needs. For Africa, the lower order needs are currently the most prevalent.

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