

## China's Development: Lessons for Africa

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### Abstract

*There is ample statistical and non statistical evidence to confirm that China's visibility within the global economic system has increased dramatically over the past three decades. Its share of world trade rose from less than 1 percent in 1979 to 5.2 percent in 2003. The dramatic growth of China over a relatively short space of time has attracted the attention of many Afro-optimistic development economists and policy makers. This desktop research investigates China's development strategy with a view of drawing lessons for Africa's development. Data were collected from literature on Africa and China's socio-economic development trajectories. The study established that China had a unique socio-economic development strategy which was introduced in 1979. The carefully planned strategy has sustained the country's remarkable development record. The question that begs attention is what lesson can Africa draw from the Chinese experience? Apparently, Africa is the least developing continent in the world, yet it is endowed with plenty economic resources.*

**Key Terms:** *Africa, China, Development, Strategy, Lessons*

### Introduction

There is no debate on the notion that the world is divided into two main economic zones, the developed and the developing zones. Latin America, Asia and Africa are in the developing zone while America and Europe are in the developed zone. China is in the developing zone; its economy is growing at an average of 8.4 percent per annum. Two historically comparable cases to the Chinese trend of economic growth are Japan and South Korea. The two economies have registered a double digit economic growth for an average of 30 years. Japan and South Korea witnessed rapid economic growth during the periods in which they underwent industrial transformation and integration with the global economy. However, the economic

boom of the two economies did not have a sustained growth as seen in China. This paper pins Africa's development on the warm socio-economic and political relations between China and Africa. Two distinct schools of thought support the Sino-Africa relations. First, China's expansion in Africa is undergirded by strong bilateral relations between Beijing and Africa. The bilateral relation is contrary to the principle of multilateralism as advocated by the G7 and the Organisation for Economic Cooperation and Development (OECD) countries (Melber, 2008). The second school is underpinned by the South-South cooperation, which is founded on the principle of equality and solidarity. The South-South development cooperation has cemented the Sino-Africa relationship for the past six decades. The rationale for this cooperation is that countries in the Southern hemisphere should use their comparative advantages to develop themselves rather than rely on countries in the Northern hemisphere for donations. Cooperation of the South leads to equitable advancement of the people of China and Africa (Fernandez-Tarango, 2008). The above idea seems to endorse the opinion that the South-South cooperation is benefiting the people of Africa and China. However, it is not clear if the benefits are equitably distributed to both parties (China and Africa). According to Chang and Halliday (2006), China has assumed a hegemonic role in Africa. The hegemonic role is traced back to the Bandung Conference of 1954; at the conference, China pledged to support liberation movements in Africa and it lived to its promise. There is a school of thought that claims that Africa has simply changed its master from the West to China in the East. This school of thought claims that the relationship is more exploitative of Africa than the one that existed between Africa and the North. Regrettably, this school of thought fails to acknowledge China's contribution to the liberation of Africa from the shackles of colonialism.

### Conceptual Framework

The world economy is divided into two; the East-West divide. Economies to the West are more developed than those to the East. The North-South is another divide. Countries in the South are less developed than those to the North of the Equator. Whichever divide one adopts, Africa occupies the less developed part of the world. Afro-optimists argue that the lack of development in the continent is largely attributed to colonialism. Indeed, Europe controlled the political and economic space of Africa for centuries. The Berlin Conference of 1884 formalised the colonization of the continent by Europe. Afro-pessimistic thinkers have linked Africa's underdevelopment to factors that range from corruption to maladministration by African leaders. Yet liberal thinkers attribute the

underdevelopment of Africa to factors that lie within the continent and those that are induced by the global economy.

Development is a process that involves the re-organisation and reorientation of entire socio-economic systems in order to improve incomes and output levels of an economic system. Development entails improvement in human life. Inversely, underdevelopment is a process of stifling improvement in incomes and output of an economic system. The West used its political and financial might to suppress Africa's development. Two main strategies facilitate the exploitation of Africa by the West. First, raw materials and labour were and continue to be drained out of the continent to develop the West. Second, the developed world designated Africa to be the prime market of its manufactured goods. Unfair terms of trade and price regimes were and continue to be dominated by the West. Aid and development loans to Africa from the West have stringent conditions, which have indebted African economies. The continent's indebtedness began to be a problem in the late 1970s and following the second oil price shock. These exploitative conditions supported Europe's 15 percent per capita income growth each decade during 1800 to 1950 (Hope and Timmel, 1985; Taylor, 1998). On the contrary, China provides Africa with aid in the form of interest-free or low –interest loans. The time limit for repaying the loans is adjusted so as to lighten the burden of the recipient countries. In providing aid to Africa, the aim of China is not to make the continent dependent on it but to help it to embark step by step on the road of self-reliance and independent economic development (Knife, 2005). It is logical for Africa to emulate China, whose economy is the second fastest growing in the world. Africa, with its vast resources is poor and is less likely to achieve the MDG of reducing extreme poverty by 2015 (IMF, 2006a). The question that remains to be addressed is what lessons for development can Africa learn from the Chinese experience?

### **China's Development Strategy**

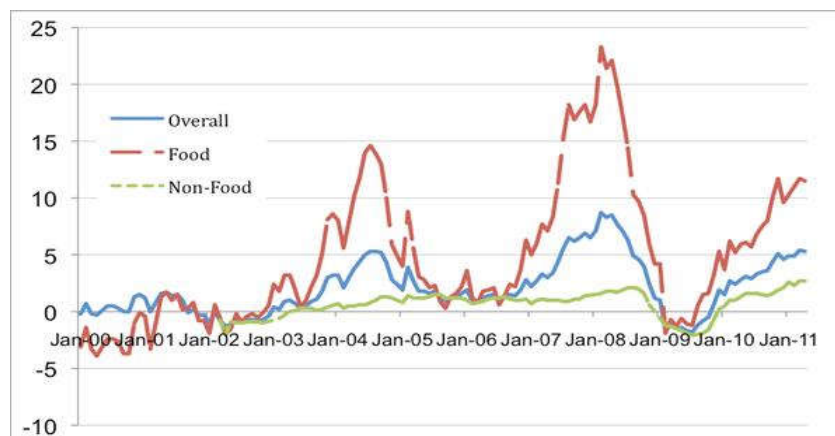
China's development achievements are not a result of a spontaneous process; rather the achievements are a result of economic planning by the Chinese government. It would be of much interest to analyse the major strategies that the Chinese government put in place to facilitate the dramatic economic growth of the country. The strategies include but not limited to; trade, labour, foreign direct investment, and integration of the economy in the global economy. In international politics, China believes in peace; it supports pursuance of a policy of peace, neutrality and nonalignment by the governments of the African countries. Furthermore, China regards science and technology as vital in development. All the strategies above

are not new in Africa. It would be of interest to know how these strategies have managed to pay dividends in China.

## Trade

China's development achievements have been anchored on international trade, yet Africa occupies a minor role in global trade, accounting for (Buthelezi 2006) 2 percent of the world's total in 2000. China introduced a range of coordinated trade reforms since 1979. One of the reforms was the introduction of broad tariff reductions. Knife (2005) reports that the average tariff levels of China declined from more than 40 percent in the early 1990s to 12 percent by 2002. China's reduction in tariffs stimulated the growth of the country's exports and imports by 21 percent, which was faster than the growth of export trade witnessed in any country in the world. China's pace of trade growth was further strengthened in 2003; exports increased by about 30 percent and imports grew by over 40 percent (Mafela and Musahara, 2011). Clear policies on inflation control by the government of China stimulated the economic growth. Figure 1 shows the inflation patterns of China from January 2000 to January 2011.

**Figure 1. Inflation** (12-month inflation rates based on CPI indexes)



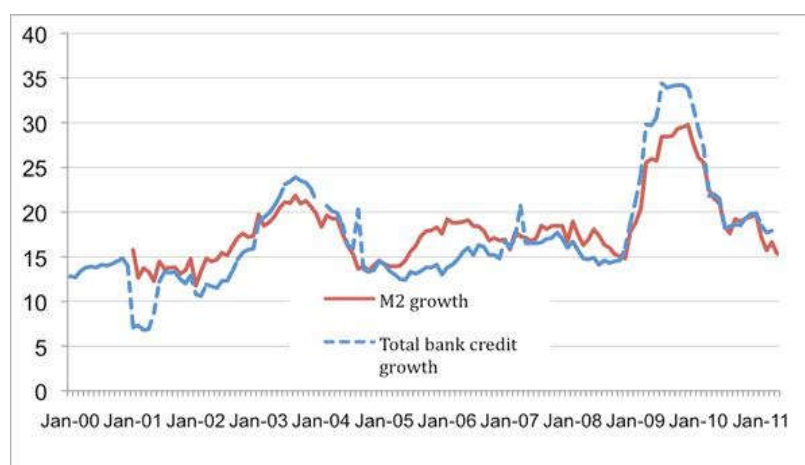
Sources: National Bureau Statistics; Haver; CEIC

Figure 1 shows that non-food inflation has been the lowest in the period under review. It also shows that food inflation was not stable during the same period. The overall inflation for 12 months averages 5 percent. The above scenario was



achieved as a result of monetary controls by the Chinese government. Figure 2 shows money and credit growth of the economy during the period under review.

**Figure 2. Money and Credit Growth (12-month growth rates)**



Sources: National Bureau Statistics; Haver; CEIC

The domestic strength of the Chinese economy also lies in its vast pool of skilled and unskilled manpower with lower wages. With a population of 1.3 billion people, China has over 700 million employable nations of which 2.2 million are employed by the coastal regions of the country. However, population growth is one of the burdens of the Chinese economy. The country has put in place stringent birth control measures to curb population growth. Incentives are given to couples with fewer or no children.

A high population growth rate that did not match economic growth rate in the Chinese economy of the 1970s resulted in a high unemployment rate. The combination of high unemployment rate and a high population growth rate decreased labour's ability to negotiate high wages. Cheap labour reduces production overheads at the same time influencing the price of goods and services from China. According to Mafela and Musahara (2011), cheap labour has been the primary determinant of China's external competitiveness, especially in the United States market where labour is comparatively more expensive. The cheap labour in China increased the profit margin of investors, which attracted investors. According to Knife (2005), the effect of FDI inflows is reflected in the continued growth of the Chinese economy.

### Foreign Direct Investment (FDI)

China has sustained a high economic growth rate for over three decades. The growth rate has been driven by high investment growth, reaching more than 40 percent of GDP (Mafela and Musahara, 2011). The sustainable growth rate has enabled China to raise half of its population out of extreme poverty between 1980 and 2000. The country is on course to achieve the United Nations Millennium Development Goal (MDG) of halving extreme poverty by 2015. The above achievement by China shows that high sustainable economic growth rates are important in reducing poverty and underdevelopment.

China's economic growth was boosted by the depreciation of the US dollar, to which the Chinese currency is linked. The fall of the US currency against the China currency increased the country's trade competitiveness on the global market. The competitiveness of China on the global market has had a positive effect on the country's economic growth.

### China in the Global Economy

The creation of outward orientation of the Chinese economy, along with the surge in inward flows of FDI, shows how rapidly China is integrating into the world economy in terms of increased trade and financial links. The level of participation in the global market by China has been made possible by the country's increase in the number of broad product lines tradable at the global market; and yet Africa is not only commodity dependent, they are dependent on one or a few commodities for their export earnings. Some of the commodities traded by China include; vehicles, mining machinery, computers, textile, leather, herbs, weapons, aircrafts, and pharmaceutical products. By 2005, the country's imports from the USA exceeded 10 percent and export rose from 5 percent in 1990 to 16 percent in 2002 (Knife, 2005). China's performance in world trade has enhanced its accession into the World Trade Organisation (WTO). This is likely to improve the predictability, transparency and competitiveness of its domestic business environment. Increasing integration into the global trading system has so far helped sustain China's economic growth and contributed to greater domestic efficiency.

Chinese state-owned companies are given incentives to seek out exploration and supply contracts with countries that produce oil and gas. China's state-owned China National Petroleum Corporation (CNPC) has invested in oil assets in Sudan and Chad while China National Offshore Oil Corporation (CNOOC) has acquired energy

interests in Morocco, Nigeria and Gabon. China already procures 28% of its oil and natural gas from Africa (Kreft, 2007; Alden and Davies, 2006). All the above is made possible through China's diplomacy. For instance, the country has cancelled debts of many countries in Africa.

### Lessons for Africa

There are a several lessons from the Chinese development model which can be adapted to the Africa environment. China has attained positive economic growth by aligning its foreign policy to its domestic development strategy. The lesson that African countries should learn is that of aligning their foreign policies to their development strategies. Many African countries compete for FDI at the same time failing to support property rights and the rule of law. This is done in pursuance of indigenization and economic empowerment policies. While the need to empower Africans who have suffered centuries of economic marginalization is a noble idea, it has its fair share of challenges. South Africa is seeking to attract FDI at the same time mooted the idea of indigenizing foreign-owned businesses. Such policy incongruence tends to scare away investors.

Funding projects in other countries is another way of courting a sustainable relationship with other nations. For instance, South Africa could fund projects in Latin America, other Africa states, and Asia. In mid 2005, China, despite being a developing country, funded about 800 projects in Southern Africa. The projects include; the famous 1.860km TAZARA railway line linking Zambia and Tanzania (Kaplinsky, McCormick and Morris, 2006). The net effect of such a commitment is a long lasting economic relationship between nations. The supply of support to other countries by African countries should be based on economic expedience rather than on political affiliation. China imposes no conditions on the recipient country regarding criteria such as good governance or social and industrial standards. One of the five principles enunciated by China in 1964 is that the sovereignty of the African countries should be respected by all other countries and that encroachment and interference from any quarter should be opposed (Knife, 2005). The above principle is criticized by the Western countries for its abandonment of political conditionality in awarding of credits and aid to Africa (Kaplinsky, McCormick and Morris, 2006; Hofmann, Kretz, Roll and Sperling, 2007). Africa is advised to forge international relations that respect the sovereignty of other nations. However, a limit has to be set on what constitutes sovereignty, without which some leaders might violate political rights of their citizens. For instance, Pinochet of Chile masterminded the horrific *Operation Condor* also known as *Plan Condor* which eliminated about 60 000 people in Latin America between 1973 and

1993. Operation Condor was a campaign of political repression and terror by right-wing dictatorships in Paraguay, Uruguay, Chile, Bolivia, Argentina, and Brazil. Africa needs to concentrate on the production of inexpensive goods such as clothes, toys and foot wear. This is important as China begins to move from production of cheap or inexpensive goods to more durable goods. The above strategic shift by China is expressed by Knife (2005:25), who says, “. . . the traditional image of China as an exporter of cheap commodities seems to be rapidly changing . . . This is because of the country’s swift transition towards the export of high quality goods such as office equipment, telecommunication products, electronics, furniture, travel goods and industrial supplies.” Africa is still the quintessential primary producer; since 1965 primary products accounted for 92 percent of the continent’s merchandise export (Buthelezi, 2006). African economies should add value to their produce rather than specializing in the production and marketing of raw materials. The swift transition of China to hi-tech export categories is likely to create a void in the supply of cheap goods in the continent, which Africa could occupy. The continent is advised to invest in indigenous knowledge and skills in the production and marketing of inexpensive goods and services. In taking this route, the continent should offer incentives to its locals to produce goods for export. In their pursuit for sustainable development strategies, Africa is advised to keep inflation under control. Governments in the continent should not tolerate budget deficits.

The growth of Africa’s economies will also depend on the continent’s ability to attract FDI from all over the world. China opened up its economy and this improved the country’s per capita income. FDI inflows are an engine for the development of the poor economies (Mafela and Musahara, 2011). FDI inflows are capable of creating employment, transferring technology, increasing government revenues, and creating linkages with the rest of the continent. The potential benefit of FDI inflows to host economies has been demonstrated by (Ayiku, 1995; Blomstrom and Kokko, 1994; Bos, Sanders and Secchi, 1974, Dunning, 1994, Erikson, 1990; Marton, 1986; and OECD, 1993). FDI inflows are external resources that are generally needed to fill the saving and foreign exchange gaps in particular economies. However, FDI must be controlled; otherwise no reciprocal benefits will be realized by Africa. Capital has the tendency of jumping ship to their advantage. It is through FDI from the West that some states in Africa have been held hostage. FDI of multinational companies in the North are well connected to their home governments, which influence political events in Africa. The West has effected regime changes in Libya, Tunisia and Egypt. Multinational companies from the North can divide and rule Africa by reminding governments that they

can relocate and produce from other parts of the world. Under such a threat, economies in Africa are forced to compete against each other under threat of losing a transnational's investment (Crowling and Sugden, 1994).

In Africa, economic growth is needed to overcome wide spread poverty (Sachs *et al*, 2004). Whatever economic reforms are adopted by African economies, they should aim to promote sustainable economic development. Without a sustainable economic growth rate, Africa will not be able to develop. However, sustaining economic growth calls for appropriate macro-economic controls. Inflation is one of the factors to be considered. Sustainable inflation rates and financial controls are required. National economic policies should seek to maintain a balance between employment creation and growth. A sustained positive economic growth has reduced poverty levels in China (Giessman, 2006). The problem is that domestic income levels of most countries in Africa like Tanzania, Ethiopia and Zimbabwe are too low to generate adequate domestic resources for the attainment of modest rates of investment and growth. Poor countries in the continent could benefit from the China's willingness to assist. In this regard, Knife (2005:73) reports, "China will, as always, provide economic assistance to African countries without any political strings attached . . . will cooperate with African countries in various fora on the basis of equality and mutual benefit." According to the Chinese Ministry of Commerce, by the end of September 2003, China had established 616 enterprises in 49 countries with a joint contractual investment of US\$1.2 billion; out of this Chinese investment was US\$0.85 billion Yao in Knife (2005). China's foreign policy has great consistency and stability and Africa has to learn something from this experience.

Africa could invest in human capital for both the local and international market. Presently, the continent is victim of brain drain to the developed parts of the world. Unfortunately, much of the brain drain is uncoordinated. It is high time African governments formalized the exportation of skills produced in Africa by Africans. That way, the continent would realize returns from its human capital investment. The growth of the Chinese economy has been premised on the nodular approach. Instead of focusing on even distribution of growth, the economy has been focusing on establishing a dualistic approach. The greatest beneficiaries of the rapid growth in the export trade are coastal areas such as the Pearl River delta including Guangdong Province and the Yangtze River delta area around Shanghai. China's development strategy is that of 'trickle-down effect'. The strategy believes that some people and regions need to be developed first so as to gradually enrich other people and regions. The map below shows China's economic zones.

Figure 3: China's Economic Zones



Source: [www.travelchinaguide.com/images/map/china](http://www.travelchinaguide.com/images/map/china)

The strategy resulted in the widening of the gap in income between the rural and urban sectors of the economy. In Africa there is evidence of growth disparities between areas. According to Buthelezi (2006), although Africa is rich in mineral, agricultural, energy and marine resources, this natural wealth is very unevenly distributed. While it is inevitable that some places develop faster than others, Africa is advised to ensure that the economic growth of some people and places is shared equitably. This could be redressed via policy reforms. Such reforms included increased land – user rights for farmers. Zimbabwe has managed to redistribute land in favour of the poor. However, land rights have to be strengthened to promote agricultural development. The current indigenization and economic empowerment policies in Zimbabwe seek to transfer economic resources from the developed people/areas to the poorer people/areas in the country. The policy is likely to lessen the negative impact of the current disparity on rural areas.

Ideological independence is crucial for Africa's development. The continent will not be able to achieve self-sustained economic development as long as it remains ideologically depended on other nations. Donations from the North are flowing to Africa with strings attached to them. According to Chang (2006), aid to Africa from the North has become a vehicle for the shrinkage of policy space. Economies in Africa have something to learn from China whose development success is linked to its ideological independence. The country's ideology is one of non-interference with the internal politics of African states. The lesson that African countries receive is that of strengthening economic ties with Chinese drivers not only as a way of broadening the policy space, but also as a means of pressurizing Western countries to ease the conditionality they impose on African governments (Mafela and Musahara, 2011). The 'Look East policy' (LEP) is a welcome innovation to Africa's pursuit for development. However, Africa needs to continuously revisit the LEP to make sure that the policy does not benefit China at the expense of Africa. China is looking for a treasure trophy in Africa.

## Conclusion

China's economy expands at an average of 8.4 percent while some parts of Africa grow at an average of 5 percent in four years. The sluggish growth in Africa explains why extreme poverty has increased given that 50 percent of the population in the continent lives below the poverty datum line. Africa's growth rate casts doubt on the continent's ability to achieve the MDG of halving poverty in Africa by 2015. Africa has much to learn from the Chinese experience. The lessons range from institutional changes, to specific industrial and trade policy measures, to application of science, to mechanisms of attracting and disciplining FDI with greater development potential, to attracting and disciplining FDI with greater development potential, to devising more effective 'reciprocal control mechanisms' between states and business, to enhancing bargaining power, vis-à-vis the other major donors. The idea should not be one of replicating China's development model rather the idea should be that of extracting specific lessons from the Chinese experience for the benefit of Africa. China's development success is concentrated on the coastal lands. Africa needs a growth strategy that benefits the entire continent. Incentives like tax rebates for companies that invest in economically disadvantaged community would allow growth to penetrate the poorer parts of the continent. Africa is better positioned to develop by partnering other developing states rather than relying on the developed nations. The attainment of sustainable development in the continent is better achieved in an environment of peace. Where disputes arise, these should be solved amicably. China supports the African countries in their efforts to settle their disputes through peaceful consultations. As a matter of

principle, China also supports the desire of the African peoples to achieve unity and solidarity in the manner of their choice. Africa should make sure that China does not abuse the relationship.

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