

Will Chinese Investment Create Economic Development in Africa?: Some Perspectives and Reflections

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ABSTRACT This study examined the role of Chinese investment in Africa during recent years. The rapid rate of rising Chinese investment and the trade between Africa and China have become a cause of concern to some Western nations while African countries have welcomed it. The study reflects on this engagement of Africa with China and examines some stylized facts at micro and macro levels to ascertain whether this will create economic development and help Africa to transcend the current stage of economic development. There are serious concerns expressed about this engagement and Africa needs to make a collective policy effort to take the real advantage of this emerging trade partnership with China.

1. INTRODUCTION

After 1990s, Africa has become a favourite destination for many countries for foreign direct investment (FDI). China in particular began investing heavily in Africa. This has been perceived by the Western nations as a severe threat, leading to their renewed interest in Africa. Consequently, these major investing countries – China, Britain, France, and the U.S – see themselves as competitors for the African markets (Sautman and Hairong 2007: 78). Africa did not benefit from the foreign direct investment (FDI) boon that began in 1980s due to its weak economic performance over a long period (UNCTAD 1999:1). For example, the FDI inflows into Africa increased from an annual average of about \$1.9 billion in 1983-87 to \$3.1 billion in 1988-92 period and \$6 billion in 1993-97 period. It touched a high of \$15-18 billion during the period of 2000-2004. In the year 2005 it almost doubled, reaching to a maximum of \$29 billion; in 2006 and 2007 it reached \$46 billion and \$53 billion respectively (Table 1). Although global FDI declined by almost 20 percent in 2008, the capital flows to Africa climbed to \$88 billion. The trend is expected to continue in the near future. The top FDI-receiving countries in Africa in the order include South Africa, Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, Democratic Republic of Congo, Algeria, Tunisia, and Chad; and FDI-supplying countries are the U.S., Britain, France, and China (Anonymous 2009).

Increased FDI from China into Africa has been followed by increased trade between two regions.

For example, the trade between Africa and China grew steadily from \$3 billion in 1995 to \$10 billion in 2000, \$40 billion in 2005, and \$55 billion in 2006 (Soutman and Hairong 2007: 79). It is expected to touch \$100 billion mark by 2010 (Lammers 2007). China depends on Africa for resources such as oil, timber and minerals. Africa in return buys manufactured goods and receives unconditional capital loans and aid to develop infrastructure. China's rising investment and trade with Africa has led to increased concerns from Western media and they have been very critical of Chinese approach; at times the Western media has labeled China as a colonialist country.

In 2006, the Beijing Summit of Forum on China-Africa Co-operation (FOCAC) set the new rules of the game of trade, popularly known as *Beijing Consensus* (BS)—a counter concept to *Washington Consensus* (WS). Unlike WS, the BS is a Chinese centered vision of the world and designed primarily to serve the needs of the Chinese nation and does not have a room for transfer of knowledge and experience to African people (Dijk 2009: 22). Yet, increasing Chinese influence is welcomed by many local African leaders and populace. However, Africa has not shown a very healthy sign of economic growth in over all so far. The real gross domestic product (GDP) per capita of Africa increased by an average of only 1.5 percent a year during the 1980s and by 0.4 per cent a year between 1990-1994 (UNCTAD 1999: 1). There is a big debate whether Africa should open doors to Chinese investments or be more cautious in doing so as to avoid poten-

tial dangers of economic dependence and sovereignty (Table 1).

Table 1: Estimates of gross world annual average FDI and Chinese FDI in Africa, selected periods, billion US dollars

<i>Selected periods</i>	<i>World annual average FDI</i>	<i>Chinese FDI</i>
1983-1987	1.9 ^a	-
1988-1992	3.1 ^a	-
1993-1997	6.0 ^a	-
2000-2004	15-18 ^b	-
2005	29.0 ^b	1.0 ^b
2006	46.0 ^c	8.0 ^b
20067	53.0	

Sources: UNCTAD(1999)^a; Sautman and Hairong (2007)^b; World Investment Report 2008^c; World Investment Report 2009^d.

The major objective of this study is to look at the Chinese investment patterns in Africa and its probable impacts in the short- and long- run periods. More specifically, the study aims at clarifying the following types of questions:

- ♦ What has been the pattern and modes of investment by Chinese in Africa in the past?
- ♦ Whether this investment has led to any micro- or macro-economic changes in the sector or economy as a whole with respect to the growth and employment generation.
- ♦ What kind of policies have been followed by the African governments/states to regulate the Chinese investment in or trade with Africa?
- ♦ What sort of policies and practices would be needed to take advantage of competition between suppliers of FDI in Africa?

The material of this study is organized into 5 sections. Section 2 describes the patterns and modes of investments by Chinese firms and governments in general in Africa; this is followed in section 3 by the discussion on micro- and macro-level evidences of impacts of Chinese investment and associated trade activities in Africa. An examination of policies of African governments toward Chinese investment and trade activities are analyzed in section 4. Brief conclusions are discussed in section 5.

2. PATTERNS AND MODES OF CHINESE INVESTMENT IN AFRICA

China's relations with Africa are age old. For example, Zheng made seven voyages between

1405 and 1433 as a result of exploration and trade initiative supported by the emperor of Ming Dynasty (Alden et al. 2008). The more vigorous engagement between China and Africa began in the new millennium. The Forum on China-Africa Cooperation (FOCAC), which was established in 2006, is the new state-level mechanism to support bilateral interaction of China with 49 countries of Africa. Three main drivers of this expanded relation with Africa are resources, markets, and political support in the United Nations (UN) (Alden et al. 2008). Dijk (2009) however suggests 5 more drivers for this change. These include: obtain agricultural land, channel migration of Chinese people to Africa, present an alternative to the Western models of development and co-operation, emphasize China's superpower status.

Since the adoption of Chinese reforms, the market economy of China burgeoned and demands for raw materials and energy increased tremendously. China experienced resource shortages and this drove state initiative to look for the sources of energy and raw materials outside the country including Africa. Chinese foreign policy is thus guided by the resource needs (Zweig and Jianhui 2005: 25; Taylor 2006). Chinese government has thus uplifted its diplomatic efforts worldwide with countries in Middle East, Africa, and elsewhere to enhance its energy security (Downs 2004). At the same time, the market-led reforms led the China to become the manufacturing house of the world because of its cheap labor, forcing her to find markets for Chinese goods outside the country. Africa has the potential of being a good consumer of Chinese manufactured goods. Chinese State Owned enterprises (SOEs) have thus become an important vehicle of directing FDI in Africa. Besides market avenues, Africa is also testing ground for the SOEs and provides an opportunity to build business and entrepreneurial confidence in Chinese businesses; this has led to an increase in private entrepreneurial activity by the Chinese firms (Alden et al. 2008). Chinese investment in Africa is not just limited to business alone, China also provides unconditional loans and grants to African countries. In this way, China is also building its socio-political capital in the comity of nations, particularly at the United Nations. China has modeled as a leader of global South and champion of a progressive "new legitimate rights and interests of developing countries" (China's Afri-

can Policy 2006). China is also using this leverage to oust Taiwan from Africa and there by strengthening its grip on the politics at the UN (Alden et al. 2008).

The Chinese investment and China-Africa trade are highly related. Since the Formation of FOCAC in 2000, an increasing trend in Chinese investment and China-Africa trade can be seen. The trade however has increased faster than the investment, leading to a rapid two-way trade. For example, Africa's exports to and imports from China between 2001 and 2006 rose on an average by more than 40 and 35 percent respectively, as opposed to 14 percent growth in the world trade (Wang and Bio-Tchane 2008). Furthermore, Chinese investment in the continent around 2004 was about US\$1.2 billion in 40 African countries; by 2008, there were some 800 Chinese business firms and the investment rose to about US\$62 billion (Baah and Jauch 2009: 35). Increased FDI from China into Africa has been followed by increased trade between two regions. For example, the trade between Africa and China grew steadily from \$3 billion in 1995 to \$10 billion in 2000, \$55 billion in 2006 and expected to touch \$100 billion mark by 2010 (Lammer 2007; Soutman and Hairong 2007: 79). Some important patterns of this trade-investment relations between two regions are summarized below:

- ♦ China participates in Africa in various ways, the main Chinese actors include the Chinese government, State Owned Enterprises (SOEs), private Chinese companies, Chinese embassies, and Chinese people or labor (Dijk 2009: 11).
- ♦ The main destinations for Chinese investments in Africa are South Africa, Algeria, Sudan, Nigeria, Zambia, and Angola (Baah and Jauch 2009: 35). South Africa accounts for more than half of total Chinese FDI. In 2007, the Industrial and Commercial Bank of China (ICBC) bought 20 percent shares in the Standard Bank of South Africa to the value of US\$ 5.5 billion (Baah and Jauch 2009: 35).
- ♦ The Chinese government has promoted investment selectively in key sectors; these include industrial processing (electronics, machinery, and garments), agriculture, energy and minerals, infrastructure and real estate development.
- ♦ The State Owned Enterprises (SOEs) of China are entering into the business in Af-

rica as they have access to large amounts of capital and risk-taking capacity as they are supported by the Chinese government. For example, China Overseas Engineering Company (COVEC) and Shanghai Industrial Investment Corporation (SIIC) have made inroads in South Africa (Baah and Jauch 2009: 35).

- ♦ Since 2000, Africa's exports to and imports from China have surged during the past few years, the terms of trade have moved in favor of Africa. For example, Africa's export prices relative to import prices from China improved by 80-90 percent between 2001 and 2006, resulting a trade surplus of US\$2 billion a year between 2004 and 2006 (Wang and Bio-Tchane 2008).
- ♦ Increasing trade between two regions has led to China now becoming the third largest partner after the United States and European Union (Wang and Bi-Tachane 2008). China is an important importer of the African goods.
- ♦ The oil and gas constitute as major exports from Africa, followed by the minerals and metals. For example, oil and gas accounted for 60 percent of Africa's exports in 2006 and nonpetroleum minerals and metals constituted 13 percent (Wang and Bi-Tachane 2008). On the other hand, Africa is importing manufactured products, machinery and transport equipments, accounting for about 75 percent of total imports (Wang and Bi-Tachane 2008).
- ♦ Besides trading partner of Africa, China has also played other roles such as donor, financier and investor, contractor and builder (Wang and Bi-Tachane 2008).
- ♦ The economic relations between China and Africa had metamorphosed during the last 20 years or so, from aid driven to increasingly commercial and business like (Wang and Bi-Tachane 2008). The existing loans and credit lines from China totaled about \$19 billion in 2006 (Dijk 2009: 15). Some 70 percent of the aid is spent on Chinese goods and services (Dijk 2009: 71).

3. CONSEQUENCES FOR AFRICAN ECONOMIC DEVELOPMENT

China's entrance in the African market has induced a change; certainly it will have far-reach-

ing impacts in the coming years. The major concern is that whether African economies have made a good investment to reap the benefits in the long run. The long-run gains are to be sought in terms of positive developmental impacts which will allow African economies to transcend the current stage of the economic development. Currently we can see the economic activity in various African countries on account of Chinese investment and increasing African exports to China. The researcher has reviewed these changes in two steps. First, some stylized country facts related to micro-level impacts of this economic activity are briefly discussed. This is followed by some stylized facts of general macro-level impacts of the economic activity in Africa.

3.1 Stylized Country Facts of Micro-economic Impacts

An in-depth analysis of all countries in Africa is beyond the scope of this study; however, The researcher has focused on the key countries where China has made large scale investment and trade has grown rapidly. These include South Africa, Algeria, Sudan, Nigeria, Zambia, and Angola (Baah and Jauch 2009: 35). A brief discussion of these follows.

3.1.1 South Africa

The largest share of Chinese investment in Africa is in South Africa. China has primarily invested in energy technology, mining and metallurgy, electronics, telecommunications, automobiles and construction industry. In addition, China has invested heavily in the financial sector as well; for example, Chinese bank bought some 20 percent of shares on the Standard Bank of South Africa worth US\$5.5 billion (Baah and Jauch 2009: 35). Retail sector is also a destination of Chinese investment; some 100 to 200 thousand Chinese immigrants are engaged in retail trade in South Africa (Baah and Jouch 2009: 35).

3.1.2 Zambia

Between 1993 and 2007, a total of 166 Chinese companies invested US\$666 million in Zambia and created 11000 jobs (Baah and Jauch 2009: 36). The major Chinese investment is in the Copperbelt province worth US\$20 million and another US\$35 million in other mining companies (Baah

and Jauch 2009: 36). China has also invested in the construction industry, in particular the road building (US\$19 million), construction of government buildings, football house, Lumwana power project and so on (Baah and Jauch 2009: 36).

3.1.3 Angola

Chinese invested in rehabilitating 444 kilometers Luanda Railway valued at US\$90 million and expansion of electricity in Luanda, Lubango, Namibe, and Tombwa worth US\$55 million (Baah and Hauch 2009: 36). China has heavily invested in diamond mines and construction activities. The other major area of investment is oil. The Exim Bank of China gave infrastructural loans to Angola in 2004 (US\$ 4.5 billion) in exchange of oil supplies (Alden and Alves 2009: 9).

3.1.4 Nigeria

In 2005, China and Nigeria signed the crude oil deal worth US\$ 800 million between Petro China International and National Petroleum Corporations of Nigeria. A further investment of US\$ 2.3 billion in oil and gas fields was incurred (Baah and Jauch 2009: 37). There are about 1000 Chinese companies registered in Nigeria and some 70,000 Chinese people are engaged in retail trade (Baah and Jauch 2009: 37). Other Chinese investment include: construction of roads by China Harbour Engineering Corporation (US\$1 billion); construction of a hydropower plant by China Geo-Engineering Corporation (US\$65 billion), the 45 percent stake of China National Overseas Oil Company Limited (CNOOC) in deepwater oil field worth US\$ 2.3 billion; and many others (Baah and Jauch 2009: 37).

3.1.5 Kenya

Chinese investment in Kenya is primarily in offshore exploration, pharmacy, mining and tourism. The total investment is around US\$ 53 million by SOEs of China (Baah and Jauch 2009: 38).

3.1.6 Ghana

Chinese investment in Ghana has grown rapidly after 2000 AD. During the period of over a decade between 1994 and 2006, 2178 projects

incurred a total investment of US\$ 4.6 billion; followed by another investment of US\$ 3 billion in 238 projects in 2006, and 305 projects with a total estimated FDI of US\$ 5.56 billion in 2007, ultimately creating about 13000 jobs (Baah and Jauch 2009: 38).

3.1.7 Mozambique, Sudan and Other Countries

Chinese investment is concentrated in the construction, textile, and manufacturing industries. Chinese SOEs are repairing water systems in Maputo and other cities (US\$75 million); they are also involved in road repair and road construction (Baah and Jauch 2009: 39). In Sudan, the China National Petroleum Corporation (CNPC) has secured exploration rights in Sudan through its 40 percent stake in the Greater Nile Petroleum Operating Company and invested US\$ 8 billion in oil exploration (Baah and Jauch 2009: 42). In Democratic Republic of Congo (DRC), a joint venture between the Chinese companies Wambao Resources Corporation and Congolese businesses is building a plant to produce 1000 tonnes of pure cobalt per annum (Baah and Jauch 2009: 40).

3.2 Stylized Macro-economic Development Impacts

The major concern of this study is whether these economic impacts in terms of increased employment and sporadic growth will lead to permanent structural changes in the economies so as to transcend the current stage of economic development. It is important to understand that China's engagement with Africa is not guided by the good will alone, rather by her need to develop rapidly. China needs energy sources and raw materials for its fast growing economy. It can be gauged from its mere size in the world economy. For example, based on the 2004 data, China consumed some 7.4 percent of world's oil, 31 percent of its coal, 30 percent of iron ore, 27 percent of rolled steel, 25 percent of aluminum and 40 percent of world's cement (Baah and Jauch 2009: 3). In 2007, China consumed some 9.3 percent (as opposed to 24 percent by the US) world's total oil consumption (Alden and Alves 2009: 4). And, 30 percent of growth in demand for oil has originated from China (OPEC 2008: 47). Chinese oil consumption is expected to grow by 10 percent per year (Blair 2005; Brooks and Shin 2006).

It is hence essential to see the aggregate picture of relationship between Africa and China. The researcher now reviews some macro trends that are visible in this engagement.

3.2.1 Oil as a Major African Export

Although China's imports from Africa have surged very rapidly in the past decade, the disaggregated picture shows that oil alone constitutes some 75-80 percent of all exports from four major countries—Angola, Sudan, Congo, Equatorial Guinea. These four countries supply 93 percent of China's oil supply from Africa: Angola (51 percent), Sudan (18 percent), Congo (13 percent), Equatorial Guinea (11 percent) (Based on 2006 data from Alden and Alves 2009: 6-7). Estimates suggest some 80 percent of total export value is in oil, 5 percent in iron ore, another 5 percent in timber, other minerals such as manganese, cobalt, copper and chromium constitute 0.5 to 1 percent (Foster et al. 2008: 29; Alden and Alves 2009: 12). Three major Chinese oil companies are the China National Offshore Oil Corporation (CNOOC), Sinopec (China Chemical and Petroleum Corporation), and China National Petroleum Corporation in ascending order of their business value (Cheng and Ma 2008). These companies are acquiring upstream assets in order to secure resources and commodities (Sinopec's large investment in Sudan and Angola) and also expanding into downstream activities (CNOOC went into retails and petrochemical power generation) (Alden and Davies 2006: 86).

3.2.2 Minerals as the Second Major African Export

The other major Chinese imports are non-fuel minerals. Based on 2006 data, other major imports of China from Africa constitute diamonds (27 percent of total), platinum (17 percent), copper (15 percent), cobalt and manganese (11 percent each); about 80 percent of China's cobalt and 40 percent of manganese imports originate from Africa, with DRC and Gabon, respectively, as main suppliers (Foster et al. 2008: 47; Alden and Alves 2009: 7). In Africa, South Africa is the richest in minerals; it is leading producer of platinum (80 percent of world production and 90 percent of world reserve) and manganese (75 percent of world reserve). The three countries—South Africa, DRC, and Botswana—together

account for 50 percent of world diamond mining output and 60 percent of known deposits (Alden and Alves 2009: 6).

3.2.3 *Manufactured Exports to Africa*

African imports from China mainly consists of manufactured products. Imports in value terms increased from \$3.5 billion in 2000 to \$13 billion in 2005 and \$28.8 billion in 2006 (Dijk 2009: 15). African countries also import arms from China.

3.2.4 *Angola Mode of Investment*

It should be noted that China has benefitted enormously through globalization which has brought a vast amount of capital to the country. By the end of 2008, China earned almost \$2000 billion in reserves and this money needs to be used to create jobs for the Chinese firms and raw materials for the Chinese industries (Dijk 2009: 15). And, these reserves are growing very rapidly. If not used, they can be problematic for China. China has used a special funding arrangement with its African counterparts, which makes the Chinese investment attractive to African countries. It is known as Angola mode of investment. It is not necessarily unique to China and some Western countries have also used this mode. Many African countries are resource rich but lack funds and suffer from capital shortage. The process of funding from Chinese sources involves three things: (i) An agreement between governments of the countries to be signed which establishes the purpose, amount, maturity and interest rate of the loan; (ii) A loan agreement between the borrower and the EXIM Bank of China, with subsidized interest rate by the Chinese government, is signed. The interest rate varies from 1.25 to 3 percent and grace period is from 5 to 8 years, with repayment over 10 to 20 year period (Alden and Alves 2009: 9); (iii) The capital is released upon completion of the project and paid directly to Chinese companies through EXIM Bank of China. In addition, Chinese firms bring their own labor to work on the projects. In brief, the entire input supplies including labor and capital are supplied by the Chinese counterpart and job is done to the satisfaction of the receiver. This eliminates the leakages through corruption and other activities. In return, the African counterpart supplies the required resources to China.

The EXIM Bank of China gave infrastructural loans to Angola in 2004 (US\$ 4.5 billion) in exchange of oil supplies, US\$ 3 billion to Gabon in 2006 in exchange for manganese exploration rights and another US\$9 billion to the DRC in 2008 in exchange of cobalt mining development (Alden and Alves 2009: 9). The China EXIM Bank has thus become a substitute for IMF and World Bank for some countries in Africa who do not qualify for loans from Western sources hence paving the way for Chinese expansion. In 2005, China EXIM was the largest export credit supplier in Africa followed by the US (Moss and Rose 2006).

3.2.5 *Infrastructural Investment*

China has made a substantial contribution to building infrastructure in the African continent. China contributes roughly \$7 billion towards infrastructural development in the continent, which is about 32 percent of total investment on infrastructure (\$22 billion) (Foster et al. 2008: 26). China has undertaken several infrastructural updating tasks in Africa. For example, she is financing 10 hydropower projects in Sub-Sahara Africa which will add 6000 megawatts to the capacity and increase Sub-Sahara Africa's hydropower generation capacity by 30 percent; Chinese firms are to rehabilitate 1350 KMs of existing railway tracks and are building 1600 KMs of new railways, adding a total of 50,000 KMs roads to Africa (Foster et al. 2008; Alden and Alves 2009: 17). Estimates suggest that more than 50 percent of all construction activities in Africa, according to the Organization for Economic Development (OECD), are undertaken by Chinese construction companies (Dijk 2009: 15). Chinese firms have also flouted environmental and labor standards in the host countries and some host countries have taken strong actions.

3.2.6 *Poor Transparency and Environmental Standards*

The Chinese financing mechanism (Angola mode) has allowed recipient countries to bypass the conditionalities imposed by the international financial institutions such as International Monetary Fund (IMF) and World Bank which insists on transparency requirements. Many ruling regimes in Africa build their power through patronage network and personal shareholding

of businesses (Alden and Alves 2009: 18) and have appeared at the lowest point of scale of Corruption Perception Index prepared by the Transparency International. However, countries have shown improvement over a period of time; for example, improved performances about Angola are reported by Transparency International in recent years and IMF itself (Alden and Alves 2009: 19).

Regarding environmental standards, African regulations are poorly implemented hence provide low protection standard. Chinese firms have thus been compromising with environmental standards and have been criticized by the West. This is particularly important with respect to trade of timber log from central Africa, causing deforestation and loss of carbon sink. China is thus nonetheless responding to these international pressures. For example, China's Industrial Bank became the first financial institution to adopt the Equator principles (voluntary guidelines based on international Finance Corporation policies to incorporate social and environmental issues in project financing). China is undertaking initiative to follow EITI (Extractive Industries Transparency International) guidelines.

3.2.7 Seeking Markets Aggressively

It is interesting to note that China is not only seeking raw materials from Africa but it is lying in wait to flood the domestic African markets. Textile industry is a unique case study in this context. The Multi Fiber Agreement (MFA) quota system permitted the development of textile industry in South Africa, Lesotho, and Swaziland in the 1990s. The quota limits on Chinese exporters were lifted in January 2005; as a result, all three countries experienced a serious decline in the textile exports. There was an overall decline in African textile exports by 17 percent; Madagascar and Lesotho felt a decline of 14 percent; followed by a massive decline of 45 percent in South African textile exports (Kapilinsky et al. 2006: 18-19); thus, leaving an ailing domestic textile industry which is still battling to survive. In terms of employment, 6000 textile workers lost jobs in Lesotho, the employment in textile industry decreased by 56.2 and 12.2 percent respectively in Swaziland and South Africa ((Kapilinsky et al. 2006: 18-19); this had a negative bearing on domestic economic growth. The impacts were not only limited to Africa, it affected Eu-

rope, US, and other countries too. For example, The US lost about a million jobs in the textile sector since the Second World War (The Economist 25 May 2005 cited in Dijk 2009: 104).

3.2.8 Migrating Chinese Labor in the Continent

China has a policy to migrate Chinese people in the continent. A large number of Chinese workers and business people are inhabiting in Africa; some estimates suggest that there are 80,000 in Zambia (2006), 200,000 in South Africa (2007), and there are roughly 1 to 1.5 million Chinese in the 50 African countries. The rates of migration in some cases is rapidly rising; for example, it rose from 300 in 1992 to 80,000 in 2006 in Zambia (Dijk 2009: 13).

4. DOES AFRICA HAVE A POLICY AND STRATEGY FOR CHINA?

In this engagement of Africa with China, some salient facts emerge undisputedly. That is, it is an engagement between two partners on unequal footing. Chinese engagement, although provides an alternative to the Western model of funding and development, has not come out of altruistic motives of Chinese leaders, rather it is driven by China's needs for meeting its energy and raw materials and diplomatic support (Van Dijk 2007). Do Africans have a combined strategy or to use its resources toward developing the continent, rather than simply performing a role of resource colony to China? These are some questions that loom large and needs further investigation.

As per Broadman (2007), the investment by China and India in Africa can harbingers an era of economic prosperity in the continent provided a right set of policies are designed by the African states. The study details a series of reforms that are suggested to be used by China (including India) and Africa both. These include: 1. Elimination of tariffs by China on Africa's leading exports including Africa's tariffs on its own inputs that make its exports uncompetitive; 2. Improvement of market institutions and governance is required to foster competition; 3. Improvement in the customs administration, transport, and communications so as to reduce the transaction cost of the business; 4. Improved linkages which allow African businesses to participate global

production sharing network (Broadman 2007). The poor quality of infrastructure, particularly related to energy and transportation is the major constraint to doing business in Africa (Wang and Bio-Tchane 2008). Thus, a big recommendation of Broadman's work is about the improving of business efficiency through development of sound institutions and infrastructures. The major objective would be to reduce the cost of investing and doing business.

Chinese companies, especially construction companies, come to Africa with their own labor force. Chinese labor thus replaces local labor and obviously the local companies. Chinese funds granted as loan finally go back to Chinese firms to make payments along with exports of raw materials including oil. Chinese investment thus does not percolate to the lower rungs of the society, particularly when Africa's investment toward meeting Millennium Development Goals is very urgent. According to the United Nations Economic Commission for Africa, some US\$350 billion is needed to meet the MDGs by the target year of 2015 (UNDP 2007). The FDI can be important source meeting the capital needs for realizing the MDGs. However, it should be noted that Chinese FDI alone cannot meet this gap and Africa will have to resort to diversify its sources of finances (Dijk 2009: 95) African policies need to amend the labor regulations in the favor of domestic population.

Chinese firms either have none or less regard for African environment, although international pressure on China is rising to safeguard the environment. The environmental impacts of extracting resources can be very large in terms of long term economic development. Ignoring these impacts will put Africa at a disadvantage in the long run and may cause permanent incorrigible damage.

By looking at the aggregate patterns of trade with China, Africa plays the pivotal role of resource supplier or provider of primary products in exchange for finished manufactured products. This is not new if we look at the Africa's trade relation with the West. This also makes the African economies to sensitive to fluctuations in commodity prices, excessive dependence on commodities can paralyze the internal economies should prices fall (for example, Zambian economy crashed as copper prices plummeted in 1980s and early 1990s). A continental strategy to diversify the African exports requires that she initiates

the pursuit of beneficiation strategies to complement the heavy reliance on resource extraction.

It is obvious that African states are not well prepared for an equal exchange with China and other countries and lack a collective institutional framework to pursue the development of the continent.

5. CONCLUSION

China's growing economy needs markets and raw materials. In order to join the status of developed countries, China has decided to grow rapidly and follow an aggressive resource acquisition and market development policy. A strong and large man-power and access to capital enables China to attain its objectives. Africa has the bounty of natural resources and economies are primarily agricultural and subsistence coupled with poor political governance and relatively not so well-developed infrastructure and institutions. The precious resources may be robbed from us if we just do not develop policies consistent with the development objectives of Africa. At present, African policies are weak and not comprehensive and do not include farsighted vision of the continent. Yet, many of these policies are poorly implemented and have thus low protection standards. African policies at best are now short-run income enhancing strategies.

A set of important principles should guide building African policies toward gearing trade with China and other countries: 1. Policy of improving institutional performance and governance in general; 2. Policy on infrastructure improvement; 3. Policy on African labor employment; 4. Policy on environmental sustainability; and 5. Policy on beneficiation. Moreover this requires a concerted efforts on behalf of African states and continental or international organizations, such as African Union (AU). The AU should leverage these changes in the continent through developing a mechanism of collective action whereby individual African states follow the protocol of Africa development.

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