The 3rd China-Africa Experience-Sharing Program on Special Economic Zones and Infrastructure Development

A Briefing Note

Introduction

While economic growth in Sub-Saharan Africa has experienced a resurgence in recent years (average regional growth was about 6 percent in the five years preceding the crisis, and net foreign investment to the region more than doubled from $14 billion in 2001 to $34 billion in 2008), a key challenge/knowledge gap facing many African governments is the formulation and implementation of effective policies and strategies for development of infrastructure, as well as for development of a manufacturing sector which is competitive in international markets. China's experiences in these two areas can help to bridge the gap, especially on the practical experience at the initial stage of its development of what had worked, what had not worked and why.

In recognition of the growing interest in sharing development experiences between China and African countries, the World Bank Group and China’s Ministry of Finance (MoF) have initiated a very successful high-level China-Africa Experience-Sharing Program, with initial deliveries in 2008 and 2009. The 2008 and 2009 deliveries were each attended by about 30 senior government officials (vice minister and director general levels) from Africa.

The overall objective of this program is to explore ways in which China's economic and investment policy experiences can inform Africa's efforts to accelerate its economic and social progress. In particular, this year’s program focuses on Special Economic Zones (SEZs) and Infrastructure Development.

This briefing note, prepared by a team at WBI, serves as background reading materials to be distributed before the workshop, so that discussions will be more relevant and focused.

Session I. Tackling Development Challenges: Linking SEZs and Infrastructure with Growth and Poverty Reduction

This session is intended to set the scene, with a presentation from the World Bank Vice President for Africa on the continent's recent progress and challenges, and then an account of the history of China’s reforms. The session will examine why Special Economic Zones were chosen as a vehicle for reform experimentations, and how they
became the driving forces for a series of other institutional reforms and for investment in infrastructure, leading to rapid integration with the global market, employment generation and improvement in livelihood.

China’s rapid growth and transformation is attributable to “reforming the system” and “opening to the outside world”, or Gai Ge Kai Fang (in Chinese) since 1978. Productivity growth can be ascribed to reforms that followed the logic of learning, adaptation, and innovation: beginning with the homegrown institutional reforms in agriculture (the rural household responsibility system (HRS)), followed by experimentation through Special Economic Zones (SEZs), an expansion of township and village enterprises (TVEs) and rapid integration with the global economy. The more complex reforms started relatively late in the process: fiscal reforms (1994), financial reforms (after 2000), WTO-accession required legal reforms (after 2001), and restructuring of state banks and enterprises into modern institutions (on-going).

Successful experiments in SEZs led to rapid trade expansion, job creation and growth, which created pressure for large scale investment in infrastructure in the mid-1990s. Transport cost in China increased in the first stage of the reform (1978-mid 1990s) as a result of insufficient transport infrastructure, lack of competition, and backward institutional arrangements. Large-scale infrastructure investment since the mid-1990s reduced the congestion and transport time, leading to a reduction of transport costs and facilitated rapid expansion of international trade (Li Zhigang 2010).

Reforms, investment and opening-up have intertwined and re-enforced each other to overcome the bottlenecks of growth, and propelled the growth engine over the long term (Kuijs and Wang 2006) which has benefited a large proportion of population. Using the new international poverty line of $1.25/day in 2005 PPP, it is estimated that in the 24 years after 1981, over 600 million poor people were lifted out of poverty and the proportion of the population living in poverty in China fell from 84% to 16% (page 11, Chen and Ravallion 2008a). In view of some other regions with limited progress on poverty reduction over the past decades (See figure 1 and 2), it will be interesting to study the institutions and policies behind the tremendous changes in China, what happened, how it happened, and whether these experiences are relevant to Africa.

**Figure 1: Growth in GDP per capita PPP 1980 - 2005**

**Figure 2: Poverty rates for China and Africa 1981-2005 (% living under intl. poverty line $1.25/day in 2005PPP)**

*Source: Dollar (2008)*
**Session 1 objective and focus:**

This first session motivates and sets the stage for the rest of the program. It features the Keynote speech by the Vice President of Africa, World Bank, and followed by a panel discussion on broad issues such as:

- What challenges African countries are facing in economic diversification, growth and poverty reduction? What have motivated this event?
- How did China move in three decades from being a poor agrarian economy to become the “factory of the world”, and what was the role of SEZs and infrastructure? What might be relevant to African participants and what not?
- What are the potential roles for China to work with African countries in economic diversification and infrastructure development? [e.g. in learning and capacity development, or financing (aid and direct investment), and implementation?] And what China can learn from African countries?
- In what way could all development stakeholders/partners work together to increase development impact? [e.g. The role of South-South learning and cooperation, and triangular cooperation]

**References and suggested readings:**

Session 2. Openness to Trade, Investment and SEZs Development

The opening up of China since the early 1980s – allowing imports of capital, technology, and management know-how, along with other major policy reforms – has greatly enhanced China’s competitiveness and efficiency.\(^1\) Within the time frame of a generation, China has transformed from an agrarian economy into a “factory of the World”. With gradual price reforms and unilateral trade liberalization that accelerated in the 1990s, the subsequent growth of manufacturing and trade became more in line with China’s comparative advantages. As late as 1984, primary products including crude oil accounted for 50 percent of total exports. After rapid expansion of TVEs, FDI and the private sector which concentrated in labor intensive sectors, today, 90 percent of China’s export is in manufactured products, with one third of it labor intensive. (See figure 4 from Lin and Wang 2008). Inbound FDI has played an important role in China’s economic development and export success. According to the MOFCOM, foreign invested enterprises account for over half of China’s export and imports; provide for 30% of Chinese industrial output, and generate 22% of industrial profits while employing only 10% of labor.

How did China move from being a poor agrarian economy to become the “factory of the world”? Special Economic Zones (SEZs)\(^2\) played a key role – as a testing ground for economic reforms, for attracting foreign direct investment, for catalyzing industrial clusters, and for learning new technologies and incubating new management practices.\(^3\) When market institutions were not fully in place, China experimented with opening up to foreign investors in selected coastal cities and in SEZs. In fact SEZs were used to reduce resistance and opposition to critical reforms and build broad support for reforms through demonstration and controlled experimentation. Trade led growth fueled the development of many coastal areas, created more jobs opportunities. Even though their importance has declined over time, a recent World Bank study estimated that as of 2007, SEZs still accounted for about 22% of national GDP, about 46% of FDI, and about 60% of exports.

\(^1\) Efficiency comes from two sources: first, allocative efficiency improved because the production and export structure is more in line with China’s comparative advantage- the private sector can identify the comparative advantage well- when thousands of people “jumped into the sea of private business” they all went into labor intensive light manufacturing where prices were liberalized early. And second, technical efficiency since many foreign invested enterprises brought advanced technologies and products.

\(^2\) A special economic zone is defined as a geographically limited area with a single management or administration and a separate customs area (often duty free), where streamlined business procedures are applied and where firms physically located with the zone are eligible for certain benefits. Since the first modern SEZs was established in 1959 in Shannon Airport, Ireland, SEZs have proliferated. By the mid-1970s, there were at least 79 SEZs in 25 countries. Today, there are over 3000 publicly and privately operated SEZs located in more than 135 countries. According to recent estimates, SEZs in developing countries employ some 40 million people directly and 10-77 million indirectly (ILO 2003, FIAS 2008). The share of SEZs output in the exports of developing countries can be considerable, as in the Madagascar (80 percent), Philippines (78 percent), Bahrain (69 percent), and Morocco (61 percent). (FIAS 2008).

\(^3\) Chinese workers and managers learned through joint ventures. Later these workers and managers left the JV and opened their own businesses. Other firms also tried to learn from FIEs and JVs.
and generated in excess of 30 million jobs.\textsuperscript{4} SEZs have also benefited from the gradually loosened household registration system and other policies to promote labor mobility. Massive rural-urban migration (figure 5 and 6) helped rural residents to share some of the benefits of globalization.

The key experiences of China’s SEZs and industrial clusters can best be summarized as gradualism with an experimental approach; a strong commitment; and the active, pragmatic facilitation of the state. Some of the specific lessons include

- the importance of strong commitment and pragmatism from the top leadership;
- preferential policies and decentralized decision making power, and profit /revenue sharing between central gov’t and localities;
- strong ownership, commitment, support and proactive participation of local governments, especially in the areas of public goods and externalities; public-private partnerships;
- foreign direct investment and investment from the Chinese diasporas;
- business value chains and social networks; and continuous technology learning and upgrading.

African countries adopted SEZ policies relatively late, with most programs being initiated only in the 1990s. A recent World Bank study found that African zones have confronted with many challenges, with the exceptions of Mauritius and Kenya, and possibly Madagascar and Lesotho. In general, African zones show low levels of investment and exports, and their job creation impacts have been limited. Indeed, African zones are \textbf{surprisingly capital intensive} compared to the highly labor intensive zones in Asia and Latin America. However, most of the programs are still in the early stages of development and some show signs of promise. Despite poor nominal performance, their relative contributions of SEZs in national investment and exports is in line with global experiences in SEZs – this points to a bigger competitiveness challenge in the region, and suggests that the SEZs may not be doing enough to catalyze wider structural change. (Farole 2010 forthcoming).

\textbf{Session objective and focus:}

Given the Chinese experience and Africa’s challenges in developing SEZs, the following will be the key focus of this session:

1) How the special economic zones should be aligned with overall regional/national development objectives and strategy? How they can be built on the local/national comparative advantages?

2) The legal, regulatory and institutional framework for the zone development: how to establish a conducive investment climate in the zones, such as one-stop shop? This is related to tax, duty, customs, immigration, registration, licensing, etc.

3) The roles of government and private sector in the zone development, including zone planning, design and operation. How relevant are the Chinese experiences to Africa context?

4) Infrastructure and trade logistics: how the on-site and off-site infrastructure and the trade logistics are conducted? How the PPP approach is applied, if any?

5) The linkages with local economy: most coastal zones in China are highly FDI dominant, but they are very nicely linked with the domestic supply chains. How are they able to achieve this?

6) Social and environmental safeguards: how the Chinese zones minimize the adverse social and environmental impacts? What lessons can be learned?

7) Knowledge spillovers and learning: what are the effective ways to encourage knowledge spillovers from FDI to the local developers/firms?

Figure 4. China has been following its Comparative Advantage: From Raw Materials in the 1980s, to Labor Intensive Manufacturing Products in the middle 1990s

Source: Justin Lin and Yan Wang (2008) based on UN COMTRADE data.
References and suggested readings:


Li, Xiaoxi, 2009, Sharing the Experiences of China’s Special Economic Zones, Partageons les expériences des zones économiques spéciales, Presentation made at the WBI GDLN Learning Series on Investment Climate and Balanced Growth, Feb 25, 2009


Oyejide, T. Ademola, 2007, African Trade, Investment and Exchange Rate Regimes and Incentives for Exporting, AERC Paper No. ESWP_09


Wang, Jici, 2009, Industrial Clustering in China: with Special Reference to Wenzhou Footwear Cluster, Formation de grappes industrielles en Chine: Cas particulier de la grappe d’entreprises de la chaussure de Wenzhou, Presentation made at the WBI GDLN Learning Series on Investment Climate and Balanced Growth, Feb 25, 2009


World Bank, 1994, China - Foreign trade reform, World Bank East Asia and Pacific Region Report no. 12914

World Bank, 2007, Global Integration and Technology Transfer, World Bank, Washington DC.

Xie, Wei, 2000, Acquisition of Technological Capability through Special Economic Zones (SEZs): The Case of Shenzhen SEZ; Industry and Innovation, December 2000, v. 7, iss. 2, pp. 199-221


Session 3. Infrastructure Development Strategy and Financing

With 40% of the population living in landlocked countries, Africa has a major deficit in infrastructure at both the national and regional levels. Only 29% of households in Africa are with access to electricity, 31% to improved sanitation facilities and 60% to improved water sources. In Rural areas, only 33% of rural population have access to all weather roads, as compared to 49% in other low income countries. (Fay and Toman 2010) Low population density and the extremely low economic density (GDP per km$^2$) result in high cost and low profitability of infrastructure investment. To accelerate Africa’s growth performance, its investment needs in infrastructure are twice as much as the region has historically been investing: According to World Bank estimates, annual infrastructure needs were estimated at USD 93 billion (of which one third for maintenance). Annual spending (domestic and foreign, public and private) is now about USD 45 billion and efficiency gains worth USD 17 billion are available. This leaves an annual funding gap of USD 31 billion (or 5% of GDP), mainly in the power sector. (World Bank 2010)

It is hoped that China can serve as sources of inspiration, financing and know-how in this regard. According to China’s own development experience, infrastructure has played a major role in China's accelerated development. As growth accelerated after the first stage of reforms, China in mid 1980s was facing mounting pressure and bottlenecks in electricity and road transport. After intensive government investment in infrastructure, the road network expanded by more than 40 percent in the 1990s, water production grew by more than 50 percent, and power generation exceeded 300 gigawatts, making China the world's second largest energy producer (Bellier and Zhou 2003). The development of expressways has been particularly remarkable (figure 8), with the total length increasing from 147 kilometers in 1988 to over 60,000 kilometers in 2008 (Guo 2009). The rural highway network also grew considerably. By 2007, the proportion of townships and villages reached by rural highways increased from 98 percent and 80 percent in 1995 to 99.5 percent and 88.2 percent respectively (Guo 2009). During 1990 to 2006, about 400,000 km of local and township roads were improved (World Bank 2007).

Figure 6: China’s Road Transportation

Source: Guo Xiaobei (2009).

Figure 7: Growth of township roads in China 1995–2002 (km)
The role of fiscal policy and cost recovery: Chinese government’s proactive fiscal policy played an important role in infrastructure development. Fiscal decentralization proceeded in two waves: the first wave started in 1982 when provincial governments began to retain a share of revenue rather than transferring the full amount to the central government. This provided strong incentives to promote local GDP growth. The second wave started in 1994 when tax assignment system was introduced, and further enhanced incentives for local governments to promote growth by investing in infrastructure. Third, there is a clear division of labor between the central and local governments on who finances what, and who has the ownership and responsibility for completing the projects and for post-completion maintenance. Fourth, another interesting feature is the “cost recovery” approach that prices infrastructure services at levels sufficient to finance the capital cost as well as operations and maintenance, which is crucial in sustainably expanding infrastructure. Rural road improvements were also integrated with major highway projects, implemented with outside development assistance. China has gained considerable experience and learned its lessons in building sustainable infrastructure through commercial approaches and an active private sector participation.

On the other hand, some studies have shown that in the recent years, the efficiency or rates of return from infrastructure has been declining (Li Zhigang 2010). Although there are mechanisms to weed out bad projects- including feasibility studies, expert reviews and approval process, China is not successful in weed out all “white elephant” projects - we can find them easily. Other studies (i.e. Fan and Chan-Kang 2005) also find China give too much priority to high-quality roads such as highways and freeways, though the benefit–cost ratios for lower-quality roads (mostly rural) could be four times higher than those for high-quality roads.

Session objective and focus:

This table below shows Africa’s investment needs and funding gap in infrastructure. Indeed, Africa’s infrastructure investment needs relative to GDP are particularly large, at 15 percent of GDP. After considering efficiency gains from improvements in soft infrastructure (such as improvements in governance, regulation and cost recovery, the region’s annual funding gap would remain sizable at about 5 percent of GDP, or about $31 billion.
This session should be tailored to address the specific issues and challenges in Africa’s development, for example, low population density, low economic intensity, and high cost of delivering infrastructure services. The following questions would be especially relevant:

1. Given the low population density, how to provide low cost infrastructure in small, isolated communities? (By comparison with China, most African countries have small isolated populations with very high infrastructure costs.)
2. How to improve selection of infrastructure projects, i.e. project screening? (What sort of identification/appraisal does China undertake for its own investment?)
3. How to secure rigorous, efficient management? What sorts of project management/supervision skills are needed during the construction phase? How are managers trained? How is good performance incentivized? What sanctions are deployed for poor performance? What are the corporate governance arrangements?
4. How to attract private investment infrastructure? How are deals put together? What sort of returns do private investors need? What sort of guarantees?
5. How to improve revenue generation? Africa needs a more commercial approach to setting tariffs, and better collection. How are tariffs set in China? What are the tools deployed to achieve high levels of revenue collection?
6. How were labor and capital market disciplines developed over time?
7. How to fund rapid development of urban infrastructure in cities? Africa is urbanizing very rapidly but lacks the financial and technical capacity to develop the infrastructure needed to make cities function effectively. (China has been very strategic about using urban land policy to fund infrastructure, for example by
8. How to maximize development impact of infrastructure through spatial planning? China has been smart about bundling interventions to create an adequate infrastructure platform to boost growth in areas of key development importance. Africa has a political tendency to spread around infrastructure budgets thinly to provide a little bit for everyone without ever reaching political mass. More recently, the idea of spatial development and corridor based interventions has however come into vogue in Africa.

9. How to finance and implement large hydro projects? China is a global leader in the development of hydro power. Africa has vast untapped hydro potential. Many of Africa's hydro projects are technically challenging both to implement and finance. It would be useful to learn from China's experience.

References and suggested readings:


Guo Xiaobei, 2009, Development Experiences of China’s Transport Infrastructure, Working paper commissioned by WBI.


Liu, Zhi, 2005, Planning and Policy Coordination in China’s Infrastructure Development --A Background Paper for the EAP Infrastructure Flagship Study


Session IV: Rural Infrastructure, Diversification and Global Value Chains

Most African countries are largely agrarian economies which need economic diversification, thus, China’s experience in rural infrastructure and linking farmers with global value chains are most relevant.

After initial rural reform which focussed on incentive systems, China has been able to diversify the rural economy by developing township and village enterprises (TVEs), investing in public goods, and connecting farmers to markets through further opening up to international markets prior to China’s accession to the WTO. First, China gradually reduced average tariffs for agricultural products from 42 per cent to 21 per cent in the period from 1992 to 2001. Furthermore, the country has fully implemented its commitment in WTO accession and reduced the tariffs from 21 percent to 11 percent in the period between 2001 and 2005. By the 2000s, domestic prices of most of agricultural commodities were close to those on the world market. (Guo Li et al 2010)

Second, the government has intensified its investment in public goods, which has been complemented by co-financing from all levels of the government, public service units and farmers themselves. Projects in rural roads, hydro power, electrification and irrigation were financed by central and local governments, civil society, and farmers themselves (in the forms of voluntary labor and cash). In the period of 1980-2006, the proportion of self-financing by farmers themselves reached 34% in fixed asset investment, whereas investment from foreign aid and FDI accounted for less than 4 percent (Yang Qiulin 2010). According to a survey of 9,138 projects (in 2459 sample villages), 87 percent was investment in public goods such as rural roads, irrigation, schools, and drinking water. About two thirds of public goods investments were into five types of projects which were selected and co-financed by villagers (through labor and matching funds): rural roads 21 percent, schools 14 percent, irrigation 14 percent,

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5 The replacement of collective farming with a household-based system, later known as Household Responsibility System (HRS), started spontaneously in Fengyang County, in Anhui province in late 1978. Seeking to end their food shortage, peasants had started to implement a policy of contracting collective land to families where farmers make production decisions and keep all profits after selling a proportion of grains to the state (Du 2006). First an illegal practice, up to 1980, the HRS was scaled up to 45 percent and to 98 percent in 1983 (Lin and Wang 2008). The most important implication here is that the policies accommodated the spontaneous actions on the ground. The adoption of the HRS, together with agricultural product price increases were key elements of the rural reform in 1978-84, which unleashed farmers’ incentive and led to rapid agricultural productivity growth and poverty reduction. Nearly a half of the total rural poverty reduction happened in this early stage of reforms (Lin, 1987, 1992, and Ravallion and Chen 2007).

6 As the agricultural sector developed rapidly after 1980, it created a surplus of labour as well of savings which greatly expanded the opportunities for township and village enterprises (TVEs). They came into existence under the People’s Communes system in 1971. Fiscal decentralization started in 1979 provided incentives for local governments to develop their local economies through supporting TVEs. Employment in TVEs increased from 28 Million in 1978 to 95 million in 1988 at the peak (SSB 2007). This development had led to a rising rural incomes and a labour reallocation from agricultural to non-agricultural sectors. The dynamism of TVEs and other nonstate enterprises exerted a pressure on the SOEs and triggered the restructuring of the SOEs.
drinking water 12 percent, clinics 3 percent, and other public goods 37 percent. (Li Guo et al 2010)

For example, rural water resources management encompasses both drinking water and irrigation; both considered the responsibility of the government and requiring intensive investment. In 2000, 379 million rural people were without safe drinking water supply. During 2001-2009, after the government’s investment of about USD$7 billion, an additional 195 million people were provided with safe drinking water. Secondly, irrigation is considered the basis for agricultural productivity and poverty reduction. Between 1979 and 2007, irrigated area was increased by more than 25% (Zhong 2010). A case study about Water User Association (WUA) shows it is a community based and participatory approach which empowers farmers to improve farm-level irrigation management. Started in early 1990s, the Ministry of Water Resources (MoWR) selected 20 large irrigation districts to experiment with WUA, accompanied with water saving projects. After 2002, MoWR and Ministry of Civil Affairs fully implemented WUA development in China, with about 200,000 WUAs established at present (Shen Dajun).

Third, develop and support rural clusters and link them with market. In general, clusters can be characterized as agglomeration and networks of production of strongly interdependent firms (including specialized suppliers) linked to each other in a value-adding production chain, service providers, and associated institutions in a particular field. Agricultural clusters seem to correspond more to the definition by Schmitz (1992) who defines clusters as geographic and sectoral agglomeration of enterprises. The reason is that the difficulties of transport and communication in developing countries, especially in Africa, as well as the prevalence of fairly small clusters makes Schmitz’s approach better suited to the discussion of agricultural clusters in developing countries. In the past three decades, local governments working with farmers and entrepreneurs have developed many rural clusters that have significantly contributed to the local economic development and rural poverty reduction. They are not only closely linked with local market but also with global value chains. Such clusters include fruits, potato and vegetable growing and processing, meat processing, high value-added crops, herbal tea, textile, toys, etc. In Africa, there are also many successful agricultural clusters, such as Kenya cut flower, Ethiopia shoe-making, Uganda fishing, South Africa wine, etc.

Global experience of the past years appears to suggest that there are several major resource requirements for an agricultural cluster to be successful.

- **Location:** natural endowments, climate, and infrastructure. For the success of agricultural industries and clusters the location, Natural endowments, such as soil, climate or access to water resources, are critical. Clusters in a rural location in developing countries, especially in Africa, face above all the poor or nonexistent infrastructure (electricity, roads etc). This severely limits the scope for innovation in production, services, and marketing.

- **Sufficient knowledge base.** A strong academic base seems to be a recurrent ingredient for success of a cluster. Successful clusters show that they have universities or other academic institutions and research organizations in their vicinity which provide basic and also applied research.

- **Financial and Human Resources.** In the emergence of an agricultural cluster, human resources, in particular on the managerial level, may be provided
externally, by for example diaspora community members moving back, or international companies settling there. Once the cluster forms and grows, however, a endogenous human resource reservoir must arise. In addition, the availability of financial resources is also very important.

- **Market identification by firms.** The actual market focus or the linkage to the global value chain of a cluster will be a critical determinant of its success as well as act as a major pull factor for innovation and upgrading.

- **A sufficient number and variety of actors (including one or several leaders or prime movers).** Cluster development and competitiveness hinges upon the sufficient number of actors of the cluster that extend far beyond the value chain agents, but include support services such as extension systems, financing institutions, as well as education and research institutions.

- **Networks among various types of actors (industry-government, industry-university, industry-industry, professional networks, and others).** Knowledge networks, a structure of interlinked actors, facilitate further learning in firms and institutions in the process of innovation.

- **Institutions (market conditions, regulations, supporting organizations, etc.).** Agricultural clusters do require, even though to a different degree, institutions, whether public, or private, related to technological transfers, regulations, standards and grades, as well as technical training.

### Session objective and focus:

This session is divided into two panels. The first panel focuses on **rural infrastructure** development especially rural water and water user associations. The second panel concentrated on rural **clusters development** and how to link farmers with markets. Given the different situations in China and Africa in rural economic diversification and cluster development, the following will be the focus of this session:

1) What is the role of government in investing in rural infrastructure such as drinking water, roads, biogas and irrigation, and in promoting cluster development? Why clusters in China and Africa are performing so differently in terms of scale and productivity level?

2) What kinds of institutions are needed to further promote rural diversification and cluster development in Africa?

3) How to link the local clusters to the FDIs and global value chain? What kind of investment climate is needed for public-private partnership?

4) What’s the importance of road and transport infrastructure in supporting rural cluster development?

### Reference and Suggested Readings:


Session 5. Africa-China Cooperation in Industrial Parks and Infrastructure

China’s cooperation with Africa is not new, dated back in 1959 in the early days of the People’s Republic. What is new, however, is the level and significance of China’s role in Africa. There has been a dramatic increase in trade and investment flows between Africa and China, driven by economic complementarities. Trade between Africa and China rose from $10 billion in 2000 to $107 billion in 2009, representing a growth rate of 40% per year. China’s FDI outflow to Africa also increased rapidly since 2004, amounting to $5.86 billion in 2009, and more than 1500 Chinese companies have invested in Africa (figure 8, 9).

In particular, China has been a significant source of financing for investment in infrastructure. At last year’s senior leaders meeting of the Forum on China-Africa Cooperation (FOCAC) in Egypt, China announced a new round of commitments, including $10 billion in ‘concessional’ loans and credits over the next three years, further solidifying its role as a major player in supporting Africa’s development.

This growing role of China in Africa is part of a broader shift in the global economic and development landscape, where China, together with other emerging market economies such as India and Brazil, is leading the way in recovering from the global financial crisis. The shift from the G8 to the G20 as the pre-eminent forum for global governance issues reflects the recognition that confronting the global issues needs participation of China, South Africa and other emerging market economies. These new partners are contributing not only aid but more importantly are becoming major trading partners and sources of investment and know-how (Karp 2010).

Several factors contributed to the recent changes in China’s economic engagement with Africa:

a) As China’s domestic production moves up the value chain into higher-technology and higher valued added industries, a growing number of Chinese companies are looking into shift some of their lower value-added manufacturing sectors elsewhere.

b) To help support such shifts, the Chinese central government is supporting the establishing industrial zones in several countries in Africa, with the hope that the success of China’s SEZs can be replicated.

c) China’s state financial institutions are instrumental in supporting enterprises “going abroad” and cementing the new, commerce-based economic ties with African countries.

d) In addition, there are growing technical and managerial complementarities between China and Africa, including China’s capacity to design and implement
and manage large infrastructure projects, and Africa’s huge needs for infrastructure investments.  

**SEZs and global value chains.** In recent years, the globalized marketplace has witnessed the rise of vertical specialization, or, segmentation of the global value-chain where parts produced in different countries are assembled in other countries and exported to anywhere in the world. The prospects for industries in low-income countries to engage in trade within producer-driven networks would be limited without attracting substantial FDI by firms that have already been integrated into such networks. Increasingly, Chinese, Brazilian and Indian firms have acquired these attributes. FDI by firms that are well placed in the global value chains may help African countries to diversify and become competitive in the global market.

**African Feedback.** African officials welcome China’s intensified engagement in Africa, especially in the areas of technology transfer. However, some officials, on various occasions, raised issues related to local employment generation, hoping that Chinese companies could employ more local firms and workers and help enhance their capacities. They raised issues regarding the quality of goods and services, labor and environmental standards and market access. (ACET 2009). In terms of SEZs in Africa, it may be unrealistic to assume that production cost of goods produced in those zones will necessarily be lower than those produced in Asia. A policy and regulatory framework must be in place to encourage firms to transfer technology, provide training and help build local capacity.

In general, there is much room for improvements through mutual learning and understanding.

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**Figure 8** China’s FDI Outflow 1982-2009 (Million USD)

![Figure 8](image1)

**Figure 9.** China’s FDI outflow to Africa, 1999-2009 in millions of dollars

![Figure 9](image2)

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7 How best to build and retain capacity? Case studies have shown that providing opportunities for “self fulfillment” and promotion through the national systems can provide incentives for talents to stay and alleviate “braindrain”. (Y. Wang and C. Wang 2010)
Session objective and focus:

A joint panel of Chinese and African participants will explore the "whys", "hows" and "whats" of China’s broad cooperation and engagement with Africa, including topics on
1) China’s current approaches to engaging and investing in Africa’s industrial zones;
2) What approaches have been applied by other donor agencies and the World Bank in Africa that may offer lessons for China to consider?
3) What improvements can be made to China’s investment and engagement in Africa, so that it can contribute to the employment and income generation in the local economies, and facilitate the integration of African economies to the global production network.
4) How to make development assistance and South-South cooperation more effective?

Reference and Suggested Readings:
Broadman, Harry G. et al. 2007. Africa’s Silk Road- China and India’s New Economic Frontier, World Bank, Washington DC.
Li, Xiaoyun, 2009, China’s Foreign Aid to Africa, Working Paper. IPRCC website.
Ozawa, Terutomo and Christian Bellak, 2010. ‘Will China relocate its labor-intensive factories to Africa, flying geese style?’ *Columbia FDI Perspectives, No. 28, August 17, 2010.*
Session 6. Tying Up: What Are the Overall Lessons/Takeaways?

This final session will try to discuss some of the common themes, including leadership/ownership of reforms, sequencing and implementation issues, stakeholder participation, experimentation and evaluation in a learning process. In this session, participants will be invited to provide feedbacks and share their main takeaways from the three-day workshops and the 4-day field visits, and their thoughts on topics and ways for continuous experience sharing between Africa and China.

Following are some highlights from previous workshops/field visits that the discussion can build upon:

- Development is a process that is full of uncertainties, and each country has its own particular political, cultural, and historical background. Because of this uncertainty and country specificity, development itself must be a process of experimentation, self-discovery, learning, and innovation. (Hausmann, R. and D. Rodrik, 2003; Wang 2005, Lin and Wang 2008).

- Combine openness to trade and investment with learning by doing, and encourage experimentation through SEZs. China’s success involved deep integration with the global economy to bring new technologies and ideas, take advantage of its comparative advantages, and improve its own total factor productivity. SEZs have become the testing ground for structural reforms, which created a good investment climate to attract FDI and the private sector development. A high degree of local autonomy in China resulted in competition among hundreds of cities to create a good investment climate and attract investment (Dollar 2008, Zeng 2010).

- Emphasis on infrastructure and other growth bottlenecks. China was able to rapidly expand its infrastructure network through co-financing by various levels of government (and sometimes the private sector), and a “cost recovery” policy that prices infrastructure services at levels sufficient to finance the capital cost as well as operations and maintenance. (Foster et al 2010, Dollar 2008) Using commercial loans rather than grant and forcing local governments to pay back is another interesting feature exerting disciplines. Although there are a number of mechanisms/procedures to review and approve projects, China has not been successful in eliminating “white elephant” projects which has little growth and poverty impact.

- Enhance investment in rural public goods such as rural road, water, electricity, and irrigation, and link farmers with global/regional value chains. Rural reform played a key role in China’s rapid poverty reduction (Ravallion 2008). Later on large rural-urban migration allowed inland regions to share part of the benefits of globalization with coastal regions. (Dollar 2008) The government has been
Lessons can be learned: China needs to rebalance its pattern of growth, making it more equitable and sustainable. In part, following many years of price distortion, China’s industrial structure is overly capital intensive and highly dependent on export demand (Kuijs and Wang 2006, World Bank 2007). This is a negative lesson that African countries should avoid. China has paid a high social and environmental cost for its rapid growth, which arguably could have been avoided. This can be seen most clearly in excessive energy consumption and serious environmental degradation and pollution. A recent World Bank study found that the health cost of air and water pollution in China amounts to about 4.3 percent of its GDP. Adding the non-health impacts of pollution, estimated at about 1.5 percent of GDP, brings the total cost of air and water pollution to about 5.8 percent of GDP (World Bank 2007b). Fully recognizing the problem, the government has been implement a strategy of “people centered” and scientific approach to growth, in an effort to create a cleaner, greener, and more equitable and sustainable economy.

China’s engagement in African is appreciated but it can also be improved. China needs to learn from and understand the diverse circumstances in the 53 countries in Africa, just as Africans can also draw some inferences from China. There are huge challenges and many unanswered questions and there is no “one-size-fits-all” solution. Based on China’s own experience with development partners (including the World Bank) in the past 30 years, two-way learning is crucial to the effective utilization of international aid in development process. The same spirit of mutual learning should also apply in China-Africa South-South learning and cooperation. So the final message is that China, Africa, and the World Bank should join hands in a partnership to embark on a long journey of discovery.