The G8 Africa Partnership Must Face the Challenge of China

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On the G8 agenda this year is the partnership with Africa—development assistance, debt relief, AIDS programs, food safety, and health. Yet, promoting development will require not only an approach to these perennial problems, but also an answer to the challenge of China’s vision for the continent.

Indeed, the Forum on China-Africa Cooperation (FOCAC) assumes the “injustice and inequality” of the international system and seeks to establish “a just and equitable new international political and economic order.” As the vastly stronger partner in the relationship, Beijing will determine what this new order will look like.

The risk for Africa, and the problem for the G8, is that Africa may well be swallowed up in China’s own unbalanced economic structure, while losing opportunities to build a private-sector driven system, with free connectivity with global trade and capital markets.

Employment and political stability in China depend upon massive capital investment in heavy industry and cheap exports. Beijing therefore needs two things: reliable access to resource supplies and a competitive yuan exchange rate.

The first is essential for the viability of the state-owned-socialist-industrial sector, and the second to keep exports competitive—the engine of China’s capitalist sector. Both are highly sensitive to commodity inflation on the one hand, and exchange rate appreciation on the other.

China’s quest for reliable flows of commodity resources involves not the West, but Central Asia, the Middle East, and Africa. The diplomatic organizations that govern these relationships—the Shanghai Cooperation Organization, the China-Arab Cooperation Forum, and the FOCAC—operate as mercantile organizations.

As in Central Asia and the Middle East, Beijing is committing considerable investment to the infrastructure and resource capacity of a number of African countries, with robust government support for Chinese enterprises building transportation, communications, water conservation, electricity, and energy projects.

Growth rates in Africa have risen as a result. But the economic boost may not last as long as many hope. Over dependence on China risks making Africa a mere regional component of China’s state-owned industrial sector. Beijing’s development credits are tied; the continent exports energy and raw materials to China’s heavy industries as payment for imports of Chinese capital equipment and machinery. African economies will thus develop as mirror images of the Chinese economy.

That reflection, however, will not include an African private sector with global connectivity and growing export industries, the very factors that produced all post-WWII development miracles. It is not only resource exports and infrastructure investment that produce development. Deregulation and integration into global free trade must follow for a breakout to occur. It was when New Delhi began to disempower the “License Raj” and to empower its private sector to trade with the world that the Indian economy began to take off.

But the best example is China itself. Rapid growth in trade and foreign investment came with China’s opening to global markets over the past 30 years, facilitated by Beijing’s capitalist economic diplomacy, a web of trade and investment agreements with the West and Japan, and later, full membership in the World Trade Organization (WTO).

The reforms have now advanced to the point where China’s trade is regulated not so much by administrative means but by the exchange rate. An undervalued yuan prolongs China’s dependence on low value-added exports—whose profit margins are sometimes so low as to require state subsidies to maintain employment—and denies other developing countries, including African countries, opportunities to invest in these same industries.

The need to keep exports running at a sprint pace entails pegging the yuan to the dollar and other currencies and keeping it undervalued, not a sustainable development model over the long term. While the government has begun an effort to reduce China’s dependence on exports and to move toward a domestic, consumer-driven economy, the transition will be difficult.

As the yuan appreciates, Chinese domestic purchasing power will rise and inflation will diminish. But the export engine will slow, putting growth and employment in that sector into decline. But growth in the consumer sector can generate a compensating source of employment.
This would raise the risk of an economic crash similar to that Japan experienced at the beginning of the 1990s, with one significant difference: in China such an outcome would lead to serious social and political upheaval, threatening Communist rule. Thus, significant exchange rate liberalization is highly unlikely in the near term.

This places African nations in a double bind: first, integration into China’s socialist-mercantile system links Africa with the least efficient sectors of the Chinese economy, while embedding the continent in a web of managed trade regulations, tied to the vicissitudes of Beijing’s economic priorities.

Second, China’s exchange rate dilemma crowds out significant opportunities for African development of the very export industries that are now lifting China, India and other emerging economies out of poverty, thereby limiting Africa’s potential for lucrative connectivity with global trade and capital markets.

The G8 must craft an approach to Africa that deals with these problems. One important step will be a firm multilateral effort to work with Beijing to implement a sustainable transition toward a more balanced growth strategy, that emphasizes consumption as well as investment and exports, designed to move China toward full integration with the world free trade and investment regime, and leading eventually to full convertibility of the yuan.

In the meantime, the traditional aid strategy will not be enough. The G8 governments must offer a strong alternative program of trade liberalization, privatization, private sector investment financing and tax incentives, especially for small and medium sized enterprises, and debt relief, combined with vigorous public and diplomatic support for African linkages with global markets and private capital investment.

After decades of stagnation, some African nations are poised to lead the continent toward a bright economic future. But to get there, Africa, like China before it, will need extensive inflows of private capital from the West and access to global free markets to make the transition from stagnation and dependence to prosperous independence.

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