China as a driver of regional integration in Africa: Prospects for the future

Conference Report

A joint conference hosted by
The Centre for Chinese Studies &
The Development Bank of Southern Africa

31 March - 1 April 2008
Development Bank of Southern Africa
Midrand, South Africa
Acknowledgements

The CCS and DBSA would like to thank:

Nastasya Tay and David Monyae for the organisation of the conference and Arno Nepgen, Maria Mwafulinwa, Johanna Kgabo and Cindy Chopo for administrative support; Lucy Corkin, Hayley Herman, Mxolisi Notshulwana, Jane Kabaki, Hannah Edinger, Tabo Foulo, Rezvan Ma’ani for contributing to the conference report and Simon Freemantle for assistance during the conference; Jacobie Muller for logistical support and design of the conference report and Toni De Sousa for his assistance with printing conference materials. More importantly, we acknowledge and appreciate DBSA’s financial contribution especially CEO & MD Mr. Paul Baloyi, Dr Snowy Khoza, Group Executive Strategy and Dr Lulama Makhubela, Manager, Intellectual Capital.
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive Summary</td>
<td>1</td>
</tr>
<tr>
<td>2. Introduction</td>
<td>2</td>
</tr>
<tr>
<td>3. Session One: Regional Integration in Southern Africa - A role for China</td>
<td>3-5</td>
</tr>
<tr>
<td>4. Session Two: China’s infrastructure investment footprint in Southern Africa</td>
<td>6-8</td>
</tr>
<tr>
<td>5. Session Three: The role of SEZs: Commercial hubs and corridor spokes</td>
<td>9-11</td>
</tr>
<tr>
<td>6. Session Four: Breakaway sessions</td>
<td>12-15</td>
</tr>
<tr>
<td>6.1 Break-away group One: Unpacking Developments in Telecoms</td>
<td>12-13</td>
</tr>
<tr>
<td>6.2 Break-away group Two: Unpacking Developments in Power and Water</td>
<td>13-14</td>
</tr>
<tr>
<td>6.3 Break-away group Three: Unpacking Developments in Road and Rail</td>
<td>14-15</td>
</tr>
<tr>
<td>7. Session Five: Financing Southern Africa’s development through regional integration - Africa/China public-private partnerships</td>
<td>16-17</td>
</tr>
<tr>
<td>8. Final session: Break-away report-back &amp; discussion</td>
<td>18</td>
</tr>
<tr>
<td>9. Concluding Remarks &amp; Recommendations</td>
<td>19</td>
</tr>
</tbody>
</table>

Profile of the Development Bank of Southern Africa (DBSA) .................................................i

Profile of the Centre for Chinese Studies (CCS) .................................................................ii
Executive Summary

The one-and-a-half day conference aimed to explore how China’s engagement in Africa could implicitly assist Africa overcome its regional integration weaknesses. As China's activities in the continent increase, the need for a coordinated and united African voice has become more pertinent. Discussions focused on the merits of a regional approach to China’s engagement with the continent, in order to address current economic, political and social problems currently being experienced in Africa. Emphasis was placed on the potential role that China’s financing and construction of transport corridors, among other projects, could have in promoting and furthering the process of regional integration.

Institutional linkages are starting to emerge as illustrated with China Development Bank’s relationship with the NEPAD Business Foundation and China’s views toward the New Partnership for African Development (NEPAD) as a positive force in African development. Thus there exists great potential for the development of partnerships between stakeholders from China and continental programmes. The potential role that Regional Economic Communities (RECs) and NEPAD can play in filling the policy gap towards establishing a framework of collaboration and effective partnership with China is substantial. However, challenges facing the realisation of this role include the overlapping membership and disconnect between existing regional institutions within the RECs themselves. Furthermore, issues of sovereignty and domestic policy remain priorities to African governments, often overriding common goals and areas of interest between neighbouring countries and regional communities.

As China’s role in the provision of infrastructure has broadened throughout Africa, it has become clear that the continent needs to coordinate a regional response to the potential advantages China could bring in this regard in future. Furthermore, greater emphasis should be placed on creating a dialogue amongst RECs in order to enhance and gain clarity on the developments and future prospects between them and various stakeholders from China. Stakeholders from China encouraged the use of regional groupings, expressing interest in engaging with these regional institutions, and highlighted the current difficulties in doing this, including the lack of an identifiable coordinated process. Bilateral communication between African states and China has been favoured as a result of this lack of coordination and united voice from Africa.

The conference concluded that China’s role in Africa’s regional integration can only be harnessed once there are identifiable and coordinated regional voices. It is the responsibility of African governments to forge integration. It was suggested that while the potential benefits from China’s engagement on the continent, specifically in the provision of infrastructure, was great, it could only be harnessed once African governments realised these benefits and the advantages that regional actions could bring to their country, as well as its neighbours.
Introduction

Since the independence of African states, regional integration has been widely regarded as vital for facilitating economic development in Africa. However, evidence on the ground suggests that this process has been constrained by internal weaknesses within Africa’s political, economic, social and cultural milieu. Yet, the emergence of new actors in Africa’s economic landscape, namely China, seems to be offering African leaders and development practitioners the opportunity to consider how the prospects of enhancing regional integration can be achieved.

At present, the New Partnership for Africa’s Development Programme (NEPAD) makes a similar appeal and views the Regional Economic Communities (RECs) as the building blocks in advancing sustainable development in Africa. The deficiencies in infrastructure have constrained and, to a large extent, impeded economic development because of the high costs of doing business in Africa, thereby making intra-regional trade all the more expensive. Recognising this predicament, the NEPAD Secretariat has made infrastructural development a core objective of its focus. With the presence of Chinese companies winning infrastructure and construction projects on the African continent, analysts have noted that China’s growing investment in Africa’s infrastructural development is promoted by Beijing’s foreign resource security strategy. Where critics have been quick to point out that this is Beijing’s soft power at work, most African leaders are proponents of Beijing’s investment strategy and see it as providing the much needed regeneration of the continent’s fragile infrastructure. But can China be considered, directly or indirectly, as a driver of regional integration in Africa?

The one-and-a-half day conference aimed to explore how China’s current infrastructural investments in Africa could implicitly assist Africa to overcome its regional integration weaknesses. Moreover, the conference examined the extent to which China’s engagements in mineral-enriched economies is creating and/or facilitating spaces for transport corridors and other spatial development initiatives to emerge that will enhance the prospects for regional integration.
Session One: Regional Integration in Southern Africa - A role for China?

Zhong Jianhua, PRC Ambassador to South Africa posed the question as to whether China was the only role-player in Africa and if not, how many others there were.

He stated that China is supportive of Africa’s integration in terms of politics, economics and a response to peace and security issues. Politically, China recognises the need for the African Union (AU) and sub-regional organisations to be the dominant force, as African actors. Ambassador Zhong noted that China has strong relations with many such organisations. Ambassador Zhong highlighted peace and security challenges as the largest obstacle to Africa’s regional integration. He underlined China’s support of the AU and other bodies preventing and solving regional conflict in so-called “hot spots”, especially through sponsoring a peacekeeping conference and by sending peacekeepers to Sudan.

On the socio-economic front, Ambassador Zhong stressed that China supports the New Partnership for African Development (NEPAD) as a positive force in African development. Financial support has been given to NEPAD in the form of US$ 500 000 for the training of nurses in Kenya and Tanzania. Ambassador Zhong emphasised the importance of strengthening the unity of African countries. Lessons from European integration for Africa were debated. Ambassador Zhong advised caution on this as the EU is much more culturally homogenous. He suggested that a clearer understanding of context is required.

Francis Kornegay, Senior Researcher, Centre for Policy Studies examined how African countries are responding to China’s rise in Africa. He pointed out that the European Union (EU) and the United States of America had “free reign” until recently, approaching engagement with African issues in a relaxed manner. Kornegay suggested that the “relaxation is over”, as major emerging powers such as China and India are emerging with their own agendas, giving Africa new room to manoeuvre vis-à-vis its donors.

Kornegay suggested that given Africa’s population projections for 2050, putting Africa’s total population over the 1 billion mark, the need for regional integration is pressing, in order to address current economic, political, social and security challenges that have little prospect for resolution in the current “sovereignty framework”. He emphasised that the extent to which Africa could engage China in regional integration was critical.

Kornegay noted that the recent problems regarding African countries’ acceptance of the Economic Partnership Agreements (EPAs) with the EU and the challenges of harmonising
the South African economy within the Southern African Customs Union (SACU) exposed the fragility of SACU and the Southern African Development Community (SADC) as agents of regional integration. These bodies arguably lack the institutional capacity, implementation and programme development required. This is critical, considering that China will be looking to these bodies and other regional economic communities (REC) to provide a roadmap for African integration.

Kornegay mentioned a recent report stating that the AU’s unit for trade and industry would engage RECs in terms of coordinating a China policy, but it seems that little has come of this. This is pertinent as China moves to a more multilateral approach in addressing African developmental issues.

It is important to develop synergies between RECs and other bodies such as the DBSA, African Development Bank (AfDB), World Bank and others. These partnerships should be used as a point of departure for engagement with other powers, and not merely China. Kornegay pointed out that the EU model of integration takes on one aspect of integration at a time, whereas Africa does not have the luxury of this as so many aspects require urgent simultaneous attention, and consequently very strategic planning. He suggested a multi-pronged approach taking key learnings from EU in terms of methodology.

**Gilbert Khadiagala, Head of International Relations Department, Wits University** highlighted the Tanzam Railway as means of understanding China’s engagement in Africa. He emphasised the centrality of transport and its role as a vehicle for regionalism, citing the Tanzam project as a pioneer in this aspect.

Prof Khadiagala distinguished between exogenous regionalism driven by first generation donors such as the EU and the more preferable endogenous regionalism fostered by instruments such as NEPAD. He suggested that the endogenous regionalism provides China with a new entry point to assist regional integration through the development of transport among other mechanisms.

Prof Khadiagala also suggested that there are currently challenges in engaging China, as well as other actors, multilaterally. Most interaction is thus conducted bilaterally, as there is no clear articulation of multilateral regional co-ordination in terms of infrastructure or others sectors. The important question to explore is China’s role in “second generation” regional integration and how a transport corridor model informs this new structure of regionalism, allowing disengagement from a regionalism driven and informed by the EU. A theory of engagement with China on this issue is a work in progress, as multilateral interaction needs to develop from mere engagement of the “summit kind”.

Prof. Khadiagala acknowledged the opportunity engagement with China holds for Africa in terms of the strategic nature of infrastructure development and China’s new models of financing, but emphasised the need for more dialogue and better investment harmonisation between RECs in Africa.
Discussion

Dr Gu Yang (China Development Bank) emphasised that moves towards integration must come from within. Given that EU integration took decades to achieve despite a shared vision, African integration will be a lengthy process. She put forward that China’s controversial “no-strings attached” model has contributed to African integration as it has triggered a new debate on African integration and development, and is a “wake up call” for traditional actors. She also emphasised that Chinese actors cannot be “more African than Africans themselves” and asked for clarity on an entry point for China Development Bank into the process. It was countered that the “no strings attached” approach was an impediment to challenging local actors to defining what their priorities were.

Richard Jacobs (Mintek) suggested that the private sector not be discounted in the process of regional integration, insisting that this sector responds well to ‘incentivisation’ and could help achieve regional integration with minimal state intervention.
Session Two: China’s infrastructure investment footprint in Southern Africa

The chairperson, Dr Garth le Pere, Executive Director of the Institute for Global Dialogue noted that the first session had set a good tone, highlighting infrastructure as a very important strategic aspect of regional integration. He continued that the West looks at Africa through a deficit framework. For China, however, Africa is alive with possibilities. It is through infrastructure that China has made a great contribution, albeit through controversial means, which decades of World Bank policies have been unable to match.

Dr Winsor Chan, China Construction Bank (CCB) approached the debate as a financial intermediary for the private sector. He mentioned that political issues are very important for commercial engagement as it is difficult to do business in an unstable political climate. He noted that bilateral and multilateral engagement go hand in hand.

Dr Chan explained that no generalised model can be used in Africa in terms of Chinese actors’ engagement, whether bilaterally or on a regional level. He cited the example whereby the Engineering, Construction, Procurement (ECP) model works well in Angola but this is not the case in South Africa due to competition boards and the need for independent consultants.

Dr Chan further addressed the initiators of Chinese investment, explaining that sometimes government support is required for market entry. As no Chinese company singularly yet has the expertise to mine, process and export the African resources so desperately needed by China, addressing China’s resource needs requires coordination by the Chinese state. He also pointed out that the controversial practice of Chinese companies bringing Chinese labour to the continent derives essentially from a skills shortage, rather than a financial imperative. As there is a shortage of skills in Africa, the local labour force must either be trained or the skills imported. The presence of Chinese labour in African countries can be viewed as a prioritisation by the African government in question, of speedy delivery of infrastructure over social development and skills transferral.

Dr Chan posited that full integration policies do require public-private partnerships (PPPs). He maintained that Chinese companies do not work in isolation and that “Africa is a big cake to be shared”. For him, the key issue is poverty reduction, as infrastructure development cannot be sustained without economic growth in the country. He suggested bringing in consultants on a case-by-case basis to advise how infrastructure projects could be paid off over several years. Fundamentally, Chinese contractors need to understand what African countries priorities are.
David Monyae, Researcher, DBSA explored the nature of the playing field. He pointed out that China in Africa is not a new phenomenon, but that the rules of engagement have changed. In terms of the SADC region, he emphasised the importance of a common understanding regarding the region’s infrastructure as it emerged from a colonial past.

He highlighted the two issues pervading perspectives of China as a threat, propagated by Western media, and the perspective of China as a critical development partner, helped by most Africans, in his experience. Monyae advocated a perspective within these two views. He urged Africans to define what they want from China and other players. He questioned whether Africans have enough tools and understanding to deal with the challenges and opportunities that China and other players are presenting. Monyae raised the question as to whether China is appropriately prioritised on an African and regional agenda. To what extent are RECs going to concretise a regional integration agenda into a common position and build response mechanisms with regards to not just China, but also India, Brazil and the US? He suggests the entrance point as being NEPAD.

It was suggested that suspicions of Chinese actors in Africa are driven by the “fear factor” of the unknown. Nevertheless, it was put forward that China is engaging Africa for the same reasons as other trade partners – for oil and other natural resources. A new debate has emerged as to how Africa should pursue development – the Western liberal development model or the route initiated by China involving rapid infrastructural development prioritised over political reform. What is lacking is an assertion of what Africans want or have prioritised for themselves.

Phillipe Durand, Lead Infrastructure and (PPP) specialist, African Development Bank observed that there are many powerful Chinese players in the construction industry in terms of financial muscle and state backing. These companies have delivered projects such as the Three Gorges Dam. This project was completed one year ahead of schedule and under budget – this means additional revenue of US$ 1 billion. Durand also mentioned the Memorandum of Understanding (MOU) between China Exim and World Bank and expressed the AfDB interest to follow suit.

Pointing out that Africa had 15 landlocked countries and 16 shared river basins, Durand outlined the considerable infrastructure gaps the continent faces in terms of electricity and water sanitation among others. NEPAD and the RECs provide a good framework to address the infrastructure gaps but the commitment of individual countries is essential in terms of regional infrastructure. Durand cited the example of SADC’s efficiency in working toward a common market, but their inability to avert South Africa’s power crisis. Durand highlighted the need to involve the private sector by addressing financial risk equations and providing predictability and transparency in the form of a regulatory framework.

Durand also went on to emphasise the importance of linking mechanisms to the local economy, thus transcending the colonial nature of the transport infrastructure corridor of linking mine to port. He also voiced concerns as to the sustainability of rapid infrastructural expansion – dependent on the willingness of customers to pay, and the availability of subsidies. China’s involvement will be helpful to develop infrastructure and services regionally.

Chris Burke, Research Fellow, Centre for Chinese Studies sought to provide a context
for China’s motivation for engagement. He outlined the focus on extractive industries and procurement networks, and infrastructure in this regard. Another key element often ignored relates to supply chains and how they help consumer integration.

He pointed out that the debate regarding conflict in China’s role as a commercial stakeholder and financier is not new, if one looks at, for instance, British investment on the continent or US engagement in Asia, or Japan in Southeast Asia. Burke illustrated how China was drawing Africa into the global economy and the tremendous growth potential for the continent. China’s trade with Africa is currently half of China’s trade with South Korea. Sub-Saharan Africa has a potential 900 million consumers - two thirds of China’s population - with disposable incomes comparable to most Chinese on average. He conceded however that “development is not always pretty”.

Burke noted that in spite of reports of Chinese labourers imported en masse to Africa, previous CCS research shows that only 10-15 percent of the workforce is Chinese. In addition, Chinese companies, he notes, adhere to regulatory frameworks if they are enforced, and bring “appropriate” technology to Africa. China has recognised the potential of the African market, and there are the beginnings of Chinese investment in moves towards industrialisation, implying broader and longer-term engagement. Furthermore, it was suggested that the greatest competition to Chinese companies is often other Chinese companies, as many local firms lack the capacity to be market challengers. He emphasised the need to magnify the positive and minimise the negatives of Chinese engagement.

Discussion

It was pointed out that Chinese companies have a watertight project cycle, a “one-stop shop” often with state support, resulting in former colonial powers and other emerging nations, such as India and Brazil, losing contracts to Chinese companies.

The question of reconciling the rapid turnaround time of China Exim Bank in terms of deal- and finance-brokering and the more laborious process of other developmental financial institutions was raised, and how these disparate timeframes may be reconciled within China Exim Bank and World Bank’s MOU framework. It was cautioned, as regards China’s so-called developmental model, that it did not come without consequences, particularly in terms of environmental implications and the sustainability of such rapid growth and Africa’s ability to absorb it.
Session Three: The role of SEZs- Commercial hubs and corridor spokes

The chairperson Dr Martyn Davies, Executive Director, Centre for Chinese Studies opened the session by noting one of the key commitments made at the last FOCAC meeting was the establishment of three to five Special Economic Zones (SEZs) on the continent. Thus far, four of these Chinese dedicated economic zones have been equitably distributed across different regions of Africa, with zones announced in Zambia, Mauritius, Egypt and Nigeria. These zones became the economic driver following their introduction in China and this same model is now being transferred to Africa, with the Chinese Ministry of Commerce and China’s EXIM bank facilitating African governments who are willing to introduce this process in their respective country.

It is important to note the pragmatic approach of Chinese businesses and one needs to be aware of this as a driver of their actions. Chinese businesses have a tendency to cluster, and the establishment of SEZs can be compared to a state-led “Chinatown” approach. However, in order to create a mutually beneficial relationship, it may be the task of African governments to find ways to leverage this SEZ approach in future- perhaps creating a “China-Africa-town” approach. Regional integration is not just about infrastructure, but should rather include the African markets and stock exchanges. China should become involved in the twenty stock exchanges on the African continent, through vehicles such as the China Development Bank and China Africa Development Fund. How can Africa further engage China in this way? Will these SEZs become the future growth hubs for Africa?

Counsellor Ling Guiru, the PRC’s Economic Counsellor to South Africa noted that while China’s engagement with Africa dates back decades with its provision of aid and through the construction of the Tanzara railway, its involvement has now progressed to include investment, finance (for example through the ICBC deal), interaction beyond state-owned companies, and skills transfer (by sending Chinese trainees to Africa, skills development through ASGISA, updating training colleges at the request of the South African government, providing 600 training courses including full scholarships). Skills transfer, in particular, is important to development and improving competitiveness, thus Chinese companies are focused on providing training within the agricultural sector and for artisans, among others. This further facilitates the hiring of local labour in projects as skills are developed among the local communities in this way.

SEZs serve to attract FDI through preferential tax and other policies and are an important way for Africa to attract skills development, investment, economic and social development. To facilitate these, special win-win policies are needed as companies use these zones as a
vehicle to develop new markets for themselves, while the host country gains investment and skills. Based on China’s experiences with SEZs at home, the zones traditionally started with manufacturing and then moved on to higher-end products. It is important to note that this was a gradual process, with a limited number of sectors, eventually expanding over time. Zones in Africa allow the Chinese companies to develop an understanding of the African market context and investment climate, and may facilitate easier integration. At present the SEZs set up in Africa are specifically for Chinese companies, but perhaps in the future, they will open up to include other foreign companies.

**Mr Msokoli Nthombana from the East London IDZ** addressed the Industrial Development Zone (IDZ) programme in South Africa. From the South African perspective reasons for the establishment of an IDZ included the need to address the country’s high unemployment rate, the need to provide housing, and to integrate the country into the global economy. The rationale for the IDZ was therefore to help expand the export base, to become globally competitive in the industries within the IDZ, and to gain strategic investments in specific sectors. Infrastructure is however required to ensure the competitiveness of the zones, make them operational, and reduce the cost of doing business. Pressure is being placed on the national government by municipalities in South Africa to establish new zones in their local areas. One proposition is for the adoption of a policy where areas are developed zone by zone, where one is developed and another created once the original zone is sufficiently developed. There is also potential for those zones awaiting development to receive assistance from China, as domestic capacity is limited.

In the case of South Africa, IDZs do not have different laws to the rest of the country. While there is still engagement with Chinese companies in specific industries regarding this issue, perhaps MOUs could provide a solution to address the issue of preferential policy treatments. There is also the need to form a customs control area, and a need to identify how and what is needed to create this in South Africa. For the ease of doing business, there is also the need for the creation of a government services window providing a “one-stop shop” related to regulatory requirements, overseeing the procedure of company registration and assisting potential companies in the IDZ.

There are also issues regarding the balance of environmental sustainability and industrialisation in these zones. As the country needs to focus on creating jobs and economic growth there is a problem in having first world environmental policies but developing world labour policies. There is also a need for value chains that allow surrounding areas to provide parts of products manufactured in the IDZs, thereby facilitating economic stimulation of the region. However, for this to be possible, further integration of these areas is required – possibly though joint ventures as it reduces risks to local companies, allows the local communities in surrounding areas to benefit, as well as preventing the IDZs from becoming economic “islands”.

The IDZ concept is still new to South Africa. The challenge is to create laws that will promote the creation of these zones. For example, South Africa is looking to provide more tax incentives to offset the stricter domestic labour laws, as a way of balancing incentives with regulations that could be seen to discourage investment.

**Mr Geoff Rothschild, representing the NEPAD Business Foundation** observed that the global economy is expanding, and that there is a shift in economic centres and demographics, with less state-centred economic domains. NEPAD is an attempt to lead the development of
the continent through an African-owned approach, in order to provide sustainable economic development for Africa. Levels of development differ throughout the African continent, as do concentrations of mineral wealth. China is also experiencing rapid economic growth, and one finds most imports from Africa to China are from those countries rich in oil and minerals. Mr Rothschild suggested that there is a need for smart partnerships in intra-Africa trade, and the use of a pan-African infrastructure fund to address the varying developmental needs in Africa. There is also a need for good corporate governance, with companies considering the “Triple P” (people, planet, prosperity).

China is playing a big role in the contraction of transport corridors, which will have a huge impact on the continent. Mr Rothschild also identified education as a priority, as it is a prerequisite for establishing safe and secure markets for economic development. The challenge however, for regional and African exchanges, is how to do things together and how to ensure that economic benefits reach the grassroots level. Stock markets are a good avenue to promote transparent business processes (as was the case of the ICBC deal). The JSE is looking to make investments easier in Africa, to offer a window into Africa and make investments safe in order to attract further investments. In the future, Africa will need to also look to the Chinese market as a potential market for African companies and look for ways to integrate into the Chinese market. While there is no link as yet between China and the NEPAD Business Foundation, there is a lot of interest from African countries to link up with Chinese companies, and the Foundation is thus looking to put in place an institution that can promote further public-private partnerships in the future.
Session Four: Breakaway sessions

**Break-away group One: Unpacking Developments in Telecoms**

Moderated by Simon Freemantle, Frontier Advisory, participants highlighted the growth potential of the dynamic African telecommunications market has enabled 26% of Africans use of mobile phones, under a 70% mobile coverage umbrella. Per user per month expenditure rates are estimated to be around US$ 13.60 for mobile phone calls. The growth of the sector, and particularly the strength of South African companies on the continent, has led to MTN becoming Uganda’s largest tax payer in the space of just a few years. New mobile users on the continent are rapidly increasing, with 1 in 7 new mobile phones purchased on the continent. But call charges, and particularly 3G, hold consumers back. 3G charges in Africa are up to 50 times that of the United Kingdom. A success story, has been Mo Ibrahim’s Celtel which has a presence in 12 countries, has 400 million subscribers, and does not charge for roaming.

Chinese involvement in this sector has been limited to a few large companies with a rapidly growing presence in the region. Huawei Technologies Co., Ltd claims to be private although there are murmurs of government support and direction. It is active in Nigeria with a manufacturing plant, Angola and South Africa.

ZTE Corporation is a state owned enterprise and China’s largest listed telecommunications equipment provider. It is active in Angola, Ghana, Nigeria and parts of North Africa. China Mobile and Alcatel Shanghai Bell are both present with an increasing interest in garnering business on the continent. Chinese and local African ICT and telecommunications companies face numerous challenges in their efforts to grow their business on the continent. There is largely no real consensus on regional integration around the ICT/telecoms field. The EASSy cable off the East coast of Africa is an initiative to connect neighbouring countries to the rest of the world, via a high bandwidth fibre optic cable system, but there has been little progress in getting these countries to work seamlessly on the project.

Concerns about local beneficiation have been expressed from the African side, who desire to ensure that any foreign involvement results in strong and sustainable local beneficiation. The highly regulated ICT and telecommunications environment prevents internal movement and certainly external efforts to invest in the African market. Pricing models in Africa are often elevated due to weak competition or viable alternative modes of communication and local telecommunications monopolies which limit consumer benefits.

The Future Prospects for Chinese companies in the ICT and telecommunications sector on the African continent appear largely between local technology integrators who could
partner with China and offer a bundle of services. The lessons gathered from South Africa’s neighbours would assist other African countries to better prepare for growth in the ICT and telecommunications sectors, off of which broad and sustainable economic growth could be achieved. The question from here onwards is “How do African countries act together to benefit from Chinese interest in the ICT and Telecommunications sector?”

**Break-away group Two: Unpacking Developments in Power and Water**

Moderator Lynette Chen, NEPAD Business Foundation (NBF), opened the session by noting that water was the most critical resource to Africa, as the continent would probably experience severe water shortages in the next 20-30 years. In addition, she emphasised that energy was critical for infrastructure development on the continent. The key focus areas for discussion were the strategic nature of the two sectors, their growth potential, levels of Chinese engagement in the sectors and the contribution of Chinese companies to regional integration in this regard, specifically Chinese-funded power projects and their environmental implications.

An Eskom official explained that the electricity crisis currently being experienced in South Africa was common in most of Africa and identified several projects throughout Africa that were underway to alleviate these crises. One of these, Grand Inga in DRC, which will potentially generate 100 000 MW, will not be built without external assistance in order to construct the facility.

With regards to the water sector, a project in Namibia to receive water from the DRC has been on the cards for many years, however it would need regional efforts to make this project a reality. Furthermore, regional infrastructure has the potential to expand, however there is a lack of implementation of these plans. Questions were raised as to whether China could become involved with the implementation of these projects as they could potentially construct the needed infrastructure over a shorter period of time. A representative from the DBSA emphasised that water has become a priority area for the bank and is looking to finance initiatives in this sector. Political stability was highlighted in discussions as being key to the implementation of projects on the continent as a basis of security for investments made. The sustainability of and bottlenecks in taking a project from its conceptualisation to implementation were also identified as problems on the continent. In order to tap into the surplus of resources on the continent, and counter the risks involved with embarking on projects in these areas, the NBF wants to set up investment funds for private funds to plug the gaps in funding these projects.

It was suggested that there is much Africa can learn from China as it currently builds 2 power stations a month and makes use of technology transfers from experiences in the EU for example and implements them at home. Africa needs to find ways of keeping its skilled workers and needs to identify ways in which China can be engaged in finding solutions to the problems experienced in project implementation.

Political leadership is key to finding solutions, especially related to regional integration. NEPAD has played a role here in providing support for the Inga project and the NEPAD telecommunications cable, however African countries need to move past their individual interests to enforce regional policies suited to regional integration. This will go a long way to identifying solutions to potential problems facing the continent in the future.
A wish-list for Africa’s power and water sector needs was created. In the energy sector, exchanges between African and Chinese engineers could facilitate skill transfer. Africa should also place specific focus on the energy sector within FOCAC and try collaborating with organisations such as the World Bank, as China is doing. FOCAC must be leveraged as a multilateral approach to engage China and become more proactive in setting Africa’s own agendas.

In the water sector, current Chinese involvement should move beyond bilateral engagement to create awareness of regional needs instead. Africa could also learn from China in terms of water recycling. African governments need to become more willing to work with their neighbours in order to facilitate a regional approach to problems and take responsibility for solving those problems. Finally, Africa should not lose sight of the fact that access to potable water should be a priority, not just hydro-power for energy generation. Training centre’s in South Africa and through the continent should be equipped with the resources and skills needed to adequately address skills shortages in this and the energy sector.

**Break-away group Three: Unpacking Developments in Road and Rail**

Moderator Chris Burke, Research Fellow, Centre for Chinese Studies opened the session by introducing state-owned enterprises as the vanguard of Chinese commercial expansion into Africa. The purpose of Chinese companies’ presence in Africa was identified as accruing profit through entry into Africa’s extractive industries and supply chains. It was also recognised that African countries were receiving development assistance in the process through the stimulation of commerce as well as various other positive social impacts. Furthermore, with World Bank projects, African governments often had no say in their developments, whereas China Exim Bank projects were not prescriptive, which poses its own advantages and challenges.

The development of infrastructure is assisting in overcoming bottle-necks, especially in terms of the facilitation of the business environment. These projects, to-date, have all been handed over to the African government in question on completion.

The question was raised as to whether the Chinese Government is open to public-private partnership (PPP). It was agreed that PPP was the most desirable framework for Chinese developmental engagement of Africa as it provided for African ownership of the process and facilitated skills transfer. Dr Gu Yang from China Development Bank assured the group that Chinese partners were open to PPP as a mode of engagement, but explained that from the Chinese side there was often a lack of clarity as to the entry point in terms of developing partnerships, as well as the project priorities.

It was acknowledged that while NEPAD has a proposed blueprint for the development of infrastructure projects across the continent, NEPAD is not subscribed to by all African countries. Furthermore, national priorities often supersede regional or continental priorities, relegating the latter to a position of less importance. Therefore, Chinese developmental partners tend towards bilateral engagement not necessarily out of preference, but because regional economic communities are not as strong or well articulated as sovereign states.

It was further suggested that to bridge the gap between national and regional priorities, the
states concerned should meet and discuss cross-border projects that concern them, such as Angola and DRC with the Benguela railway of Zambia and Tanzania with the Tazara railway, as such multilateral initiatives are potentially more in synergy with the national priorities of individual states, and thus afforded more political will.

In examining engagement with Chinese actors over infrastructural projects as in comparison to traditional actors, it was agreed that the consumers (i.e. African states) have a win-win situation whereby market players are competing on the basis of value and quality for infrastructural contracts. The importance of developing regulatory frameworks and using independent consultants for quality control was emphasised, particularly with regards to the sustainability of such projects. Doubt was expressed as to whether enough was being done to transfer the skills that would enable African states to maintain the infrastructure once completed and whether African states indeed had the capacity to absorb infrastructure at the rate at which it was being constructed.

It was observed that there is an emerging trend that infrastructure corridors are being developed in an East-West trajectory as opposed to a previous North-South trajectory. While this is evidently preferable for facilitating exports to China, it was pointed out that these projects are undertaken at the behest of the African countries concerned. The example of two major road and rail projects in North Africa were cited. It was concluded that the biggest challenge to harnessing Chinese involvement in regional integration is the current prioritisation of national goals over regional objectives.
Session Five: Financing Southern Africa’s development through regional integration-Africa/China public-private partnerships

The chairperson, Prof Adam Habib from the University of Johannesburg noted that China’s need for resources from Africa can have both positive and negative consequences. There are a number of questions to consider: Who determines what the most effective developmental projects are? Is it political elites who drive this process? What are the terms of financing for these developmental projects? Finally, what internal capacities exist for the management of financing on the continent as a whole? What kinds of obligations exist for this financing?

Mr Jorge Maia, representing the Industrial Development Corporation, explained that the IDC is a development corporation owned by the South Africa government, and is more oriented towards industrial development. While there are huge investment opportunities in Africa and financing opportunities for development projects, there is a shortage in bankable projects, and the challenge is how to deal with this problem. Mr Maia suggested that there is a need to facilitate project preparation in order to ensure that projects are implemented. In order to do this, more assistance is needed to get through the most important phases of conceptualisation, design and pre-feasibility studies. Unfortunately, the continent faces a shortage in human resources to assist with these phases, and hence there is a need to collaborate with the private sector or foreign institutions.

Regional integration must be addressed, as currently on a project level Chinese engagement is more bilateral in nature, which is contrary to the concept of regional integration as the benefits are limited to specific areas. There is a need to collaborate across borders in order to gain maximum benefits. The IDC is emphasising the importance of agricultural projects, as this is where there is the greatest impact on development. The shortage of human resources at the IDC however forces it to focus on larger projects in order to effectively manage existing projects.

Dr. Gu Yang, from China Development Bank had just returned from a meeting with EU donor countries in Beijing, where they discussed the coordination of Chinese development assistance with traditional donors. The conference also focused on collaboration with the private sector and various governments. The China Development Bank emphasised its desire to work closely with African states and NEPAD in future. The CDB was established in 1994 by the World Bank and IMF as a policy bank, on the premise of separating policy lending from commercial lending. It is a state bank owned by the Ministry of Finance.
In terms of priority sectors, the majority of funding goes to petro-chemical projects, mining and transport. There is however a need to further integrate projects with regional organisations. Dr Gu proposed that there is a need to look at two new areas - cross border management and sustainability (management and maintenance of projects once the infrastructure is built). The CDB also provides micro-financing for agricultural projects and is very keen on financing Small to Medium Enterprises (SMEs) in the future. The Bank emphasises the funding of projects that include staff exchanges and training as part of its implementation and currently selects projects primarily through SOE’s such as SINOPEC, focusing on credit ratings and developmental impacts in the selection process.

**Mr Jonathon Wood, representing Standard Bank**, noted that Standard Bank recently formed a relationship with the ICBC, where the ICBC took a 20 percent stake in the bank. They are now looking to work together in investment banking across emerging markets and plan to launch a US$1 billion resource fund. They are looking specifically at the infrastructure, telecoms and energy sectors. Examining current trends in financing, Mr Wood noted that while the Chinese appear to build infrastructure in order to secure resource extraction, with finance being provided by policy banks, this was changing as the Chinese move towards a more coordinated approach. In some cases, there is also a lack of feasibility studies, which makes it difficult to determine “value for money” for African countries in terms of these projects.

There also appears to be a trend toward direct investment, as it ensures greater transfer of skills, and more benefits. Thus there appears to be a move towards more genuine commercial investments. Finally, there also appears to be increasing environmental awareness from Chinese companies. It also appears that Chinese actors will opt for more commercial financing in their African investments, as opposed to traditional funding through grants and concessional loans. Standard Bank wants to see more investments angled toward developmental needs, not just resource extraction. It is looking to initiate public-private partnerships where private companies will be responsible for the life and implementation of the project. There is however, an issue with finding local contracting capacities to work in partnership with Chinese contractors. Concessional loans could help to allow countries to be able to afford to establish local private partnerships.
Final session: Breakaway report-back & discussion

The telecommunications sector holds huge potential for Africans, however Africa needs to beware of China establishing a monopoly through its lead in controlling the introduction of the relevant hardware. By the same token, China’s involvement can also prevent local monopolies by providing lower connectivity costs and thus creating more competitiveness in the sector, for example in the case of Kenya. China is also transferring technology and skills in this sector.

In the case of power and water, there is a need to focus on renewable energy sources in future, as well as to consider whether nuclear energy could be a possible long term solution to Africa’s energy crisis. There is also a need to ensure a balance of hydro-power and availability of potable water in developing hydro-power stations to allow people on the ground to benefit. China recognises the urgency of establishing further energy sources, and is currently itself bringing two power stations a month into use in China, but Africa has not prioritised this sufficiently. There is also a need from the African side to be able to maintain energy producing stations once they are built. Encouragingly, the South African Permanent mission to the UN has carbon emissions high on its agenda, and is pursuing this problem at a multilateral level.

In terms of roads and rail, RECs have not been able to respond to China in their capacity as regional organisations. Chinese actors will approach governments bilaterally if they feel that national governments have stronger voices regarding what is needed and wanted on the continent. There needs to be a shift from linking extractive industries to airports and harbours, to rather focus on linking countries to each other.

Overall, African countries need to take responsibility for ethical sustainable development and cannot rely on China to do this on their behalf. There is a need for strong regulatory frameworks, where African governments come together and establish a common aim in order for development to take place at a regional level. They cannot only think of their own individual needs.
Concluding Remarks & Recommendations

China can be viewed as both a partner and a competitor on the continent. Most important to recognise is that China’s engagement of Africa is of long-term strategic consequence. China has perfected the PPP model and furthermore, institutional linkages are starting to emerge, for example Exim Bank’s MOU with the World Bank and CDB’s relationship with the NEPAD Business Foundation.

There is a distinct need to consider what Africa can learn from China’s development model, and there exists an opportunity to establish future research collaboration to examine the impact of China’s role in regional integration in Africa.

The process of regional integration in Africa can only be initiated and developed from Africans themselves. African governments need to recognise the benefits and advantages to be found through regional integration, thus moving beyond the bilateral agreements with China which limit any benefits to surrounding countries. Through integration, infrastructure projects can go a long way to addressing current infrastructure needs on the continent. Thus African countries need to find a way to unite at a government level, to pursue common goals at a regional level.

China has traditionally been engaged on a more bilateral level with African countries, but it is acknowledged that this process is likely to continue until regional voices are strengthened and more vocal as to common needs and goals. China is willing and interested in becoming more engaged with regional institutions in Africa but will rely on Africans to initiate this process.

The AU, NEPAD, RECs and other fora are seen as critical for Africa to utilise in making its African voice heard. These organisations should be strengthened and used as vehicles in engaging China on regional projects. As China’s involvement in especially Africa’s infrastructure sector increases, more emphasis should be placed on developing and obtaining financing for infrastructure corridors.

China’s engagement with Africa should be harnessed in a way that is mutually beneficial. During the conference deliberations, it was suggested that China was in Africa ‘to help, not to teach’- and therefore needs to be directed by Africa in terms of how its actions on the continent can benefit Africans. Regional integration is identified as a priority as there is much to be gained from such a process for African countries. The question is what China’s role in this process will be, and what part African governments will have in changing it.
Profile of the Development Bank of Southern Africa (DBSA)

The Development Bank of South Africa (est. 1983) is one of a family of five development finance institutions in South Africa. It is a self-funding institution and focuses particularly on stimulating and developing infrastructure and economic growth, via its five roles as financier, advisor, partner, implementer and integrator. The vision of the DBSA is to further the progressive realisation of an empowered and integrated Southern African region, free of poverty, inequity and dependency, and to be a leading agent for sustainable socio-economic development in the Southern African Development Community as well as a strategic partner in Sub-Saharan Africa. The DBSA invests in sustainable infrastructure for economic growth in the region; places emphasis on development and economic impact, attempts to position itself as a catalyst for investment, works to facilitate public/private sector investment, capacity building and interaction; and also undertakes significant policy research, analysis and support.
Profile of the Centre for Chinese Studies, University of Stellenbosch

The Centre for Chinese Studies (CCS) is the first institution devoted to the study of China on the African continent. The CCS promotes the exchange of knowledge, ideas and experiences between China and Africa. As Africa’s interaction with China increases, the need for greater analysis and understanding between our two regions and peoples grows. The Centre seeks to fulfill this role.

Housed at Stellenbosch University in the Western Cape Province, the CCS is a joint undertaking between the Governments of South Africa and the People’s Republic of China having been agreed to at the South Africa-PRC Bi-national Commission held in June 2004. The Centre conducts analysis of China-related research to stakeholders in Government, business, academia and NGO communities. We are also active delivering lectures to academic and business audiences at both locally and internationally.

The Centre is active in delivering business strategy content to academic and business audiences at the Graduate School of Business at Stellenbosch University, as well as private sector corporates.

The CCS hosts visiting academics and Government officials within the China Forum that provides a platform for discussion and debate on China-Africa related subjects. China Forum events are often hosted in collaboration with other institutions.

The CCS has co-operative linkages with key Chinese and African universities and institutions pursuing both research collaboration and exchange undertakings.

The Centre for Chinese Studies is also home to the Confucius Institute, the first of its kind in South Africa. Through the Confucius Institute, the CCS is projecting Chinese language and cultural studies in the Africa region. The CCS thus serves as the foremost knowledge bridge between China and the African continent.