ACODE

CHINA-AFRICA RELATIONS: MUTUAL BENEFITS FOR AFRICA AND CHINA

64TH SESSION OF THE STATE OF THE NATION PLATFORM

REPORT OF PROCEEDINGS

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Abstract

In the recent years, China has had a burgeoning economic presence in Africa. China is increasingly being viewed as one of Africa's largest trading partners with a trade volume of approximately US$300 billion a year. China is seeking to increase the current volume of trade between Africa and China to US$400 billion by 2020.[1] Despite the many developments in the region, not much information is known about Chinese investments in Africa. It is against this background that the Advocates Coalition for Development and Environment (ACODE) held the 64th State of the Nation (STON) Platform under the theme "*China-Africa Relations: Mutual Benefits for Africa and China*." A number of recommendations emerged from the discussions chief among them was the need to prioritize national interests in relation to the mutual benefits emerging from the Uganda-China relations. Other recommendations focused on technology transfer and laws to guard against counterfeit and sub-standard goods on the Ugandan market.

[1] http://www.chinadaily.com.cn/business/2015-11/10/content_22417707.htm

Introduction

The 64th STON platform focused on understanding China-Africa Relations and mutual benefits for Africa and China. The dialogue brought together officials from the Ministry of Trade, Industry and Cooperatives; members of the Committee on Trade and other Members of Parliament; Uganda Investment Authority; Uganda National Bureau of Standards; Uganda Registration Services Bureau; District Local Governments; civil society; academia; private sector and the media to engage in an honest discussion about China-Africa relations and how China and Africa can work together to maximise benefits from the relationship. The speakers for the session were H.E Zhao Yali – Ambassador of the Peoples' Republic of China in Uganda, Hon. Amelia Kyambadde – Minister of Trade, Industry and Cooperatives, and Prof. Phillip Kasaija – Professor of Political Science and Administration at Makerere University. The session was moderated by Dr. Arthur Bainomugisha – the Executive Director of ACODE. The overall objective of the 64th STON was to raise awareness on the benefits of China Africa Relations and to discuss strategies to maximise on the benefits. The specific objectives were as follows:

- To share information on the developments in China-Africa relations;
- To discuss benefits of China-Africa relations to Africa and China; and
- To find ways of improving China-Africa relations to maximize benefits for Africa and China.

Background

The growing influence of China in Africa is one of the defining contemporary policy issues of our time. China has increasingly become one of Africa's largest trading partners with a trade volume of approximately US$300 billion a year. China is seeking to increase the current volume of trade between Africa and China to US$400 billion by 2020.[2] However, China continues to import more than it exports to Africa.[3] For example, the total trade between Uganda and China was about USD 932.8 million in 2015. Out of this, Uganda contributed 6.2 per cent through exports.

China imports mainly natural resources from Africa such as oil, forest products and agricultural products. From Uganda, China mainly imports grains, raw hides and skins, coffee, tea and spices. Africa imports a wide range of products from China including textiles, foot wear and appliances.

[2] http://www.chinadaily.com.cn/business/2015-11/10/content_22417707.htm

[3] PRC (2013). China-Africa Economic and Trade Cooperation. White Paper. P.4.

Uganda mainly imports electrical and electronic equipment machinery, vehicles, iron, steel and plastics. Official Chinese data on its Overseas Direct Investment (ODI) suggests that its stock of ODI to Africa reached US$26 billion at the end of 2013 representing approximately 3% of total FDI flows. China's direct investment in Africa comprises mining (30.6%); finance (19.5%); building industry (16.4%); manufacturing (15.3%); and forestry, agriculture and fisheries (2.5%) among others.[4]

In 2000, China initiated the Forum on China-Africa Cooperation (FOCAC), which met for its first time in Beijing. In 2015, the Forum met for its 6th time in Johannesburg, South Africa. Since its inception, FOCAC has increasingly become an important forum for shaping China-Africa engagements in different areas of cooperation. In 2006, China provided a total financing commitment of US$5 billion focusing on concessional loans and buyer's credit. This increased to US$10 billion for concessional loans in 2009 and US$20 billion for loans in 2012. In 2015, China's financing commitment tripled to US$60 billion for investment.

In 2001, China introduced the Going Global Strategy in a bid to calm down China's overheating investment-driven economy[5] and diminish excess liquidity. This was implemented through encouraging both state owned and private Chinese enterprises and investors to invest abroad. The Going Global Strategy largely explains the increasing number of Chinese investments in Africa. Bilateral economic and trade cooperation between China and Africa was concretized in 2010 when the Chinese government published a White Paper on China-Africa economic and trade co-operation.[6] Despite the many developments in the China-Africa relations, not much information is known about Chinese investments in Africa. This was the background against which ACODE convened key stakeholders to discuss China-Africa relations and how Africa and Uganda in this case can maximize benefits from the relationship.

Presentations

- **Prof. Phillip Kasaija, Professor of Political Science and Administration from Makerere University**

Prof. Kasaija presented on the political economy of China-Africa relations, and identified the challenges and opportunities that the relations could encounter. He emphasized the fact that China's presence in Africa was not new but had rather been scaled up in recent years as China had gained more prominence at the international stage.

[4] PRC (2013). China-Africa Economic and Trade Cooperation. White Paper. P.6.

[5] From 1979 to 2014, China's annual real GDP averaged nearly 10% and in 2014, China's real GDP growth was at 7.4%. See Morrison, W (2015). Supra, note 9.

[6] PRC (2013). China-Africa Economic and Trade Cooperation. White Paper. P.3.

He said that China's presence had been welcomed as a breath of fresh air after long periods in which Western countries had through policies like Structural Adjustment Programmes (SAPs), unfair trade practices, debt structures and aid among others had held the African continent at ransom. He however noted that concerns remain on the long-term goals of China in Africa. He enumerated the concerns as: (i) provision of loans to African governments without asking questions, (ii)

imbalance of trade policies with China exporting more to Africa than Africa to China and (iii) the long-term implications of loans that African governments have obtained from China among others. Also, he noted that it had been noted that China was using her political and financial means to create conditions of globalization that favor it.

He noted that China's professed 'love' for Africa is underpinned (albeit under new circumstances) by the four principles of peaceful coexistence including: (1) non-interference, (2) respect for sovereignty, (3) equality and (4) mutual benefit. Prof Kasaija explained that whatever China was doing in Africa was underlined by these principles. He noted that People's Republic of China (PRC) was founded at a time when most of today's developing world was still under the yoke of colonialism. As a country that suffered from Japanese invasion and domination, China came to associate more with the colonized countries mostly of Africa, that were dominated by European colonizers for a long time. In effect, the PRC had come to portray itself as sensitive to other countries dignity. In fact, China had long sought to portray itself as the leader of the Third World, cultivating relations with African nations by providing aid, technical expertise and diplomatic support in multilateral institutions to better position itself.

Prof. Phillip Kasaija giving the key note presentation at the session

Chinese involvement in Africa could conveniently be dated from the Bandung Conference of April 1955, which marked the initiation of a policy of Chinese Communist cooperation with Afro-Asia states. The most significant contact made by China at Bandung (Afro-Asia Summit) with Africa, was with President Nasser of Egypt. This contact between the two States in May 1956 made Egypt to be the first African country to recognize the PRC.

The 1970s decade began with the PRC's admission into the United Nations (UN) as a member. From 1949 to 1971, the Republic of China (RoT)-Taiwan was the recognized representative of the Chinese people internationally. As a result of the PRC's diplomatic initiatives in Africa and Asia on 25 October 1971, the General assembly of the UN partly adopted resolution 2758 admitting the PRC into the UN. Among the seventy six countries supporting the resolution, twenty six were African countries. According to the USA newspaper, the Christian Science Monitor, *"following the vote, African delegates in particular were in a frenzy of delight-their arms swooping above their heads and jumping up and down in their seats as wild applause engulfed the circular chamber."* Thereafter, Chairman Mao Zedong is reported to have once said, *"It is our African brothers who carried us into the UN."*

The end of the Cold War saw an increase in Chinese aid to African countries partly due to the politics of the post- Tianamen Square events. By 1993, over 56% of the countries receiving aid from Beijing were on the African continent. In terms of trade, between 1987 and 1997, Sino-African trade increased by 431% and it has been raising since then. In 1999, China-Africa trade totaled US$6.5 billion jumping to US$10 billion in 2000-an increase of 60% in a single year. Moreover, throughout the 1990s, China sought to strengthen its relations with individual African countries ranging from political, economic, military, and cooperation in multilateral issues.

The Forum for China-Africa Cooperation (FOCAC) was established in the year 2000 following a meeting between eighty ministers from Africa and the Chinese leadership in Beijing. The forum established a programme of cooperation between Africa and China covering a number of areas including: investment, financial cooperation, debt relief and cancellation, agriculture cooperation, natural resources and energy, education, and multilateral cooperation.

With regard to opportunities, China's relations and interests in Africa have been increasing and will continue to increase. With the ever expanding Chinese economy (although it has momentarily slowed down) Africa will continue to be a source of resources needed in that endeavor. African countries have an opportunity to define the best terms for these resources.

Secondly, China presents a choice for African states, local entrepreneurs and civil societies symbolized by the notion of 'Beijing Consensus' (communist-capitalist Confucius economic model)- (interfere in the economy when need arises; state owned companies but accountable to government (corporate allegiance);

control resources e.g. land; and set long term goals pursued in five year plans) (promotes innovation, equitable development and self-determination) as opposed to the 'Washington Consensus' (free market including open trade policies, privatization, and deregulation) -East-South affinity v. North-South polarization. In other words, China offers African countries room to maneuver-break free from Western diktats. Moreover, China's development model is more 'appropriate' for Africa, with China being viewed as being efficient in delivering rapid results through their projects, and being prepared to go to geographical areas and sectors in Africa where most Western investors are not prepared to take business (or personal) risks.

Thirdly, China's development assistance to Africa is free from familiar Western donor conditionalities. Thus it can be invested in those areas that African countries think are a priority for their development. African countries have an opportunity to articulate a longer term vision of development with resources that are free from conditionalities.

Lastly, African countries need to exploit the shared historical experience and friendship with China. The economic, political and military support extended to Africa by the PRC in the anti-colonial and national liberation struggles during the decades of 1960s through 1980s ensures that the two sides have much in common. Moreover, most African countries look to China as a nation that has a peculiar endogenous approach (development built from within)-a process they can identify with and learn from. Mugabe "we are looking to the East where the sun rises, and have turned our backs on the West where the sun sets". China comes to Africa minus "baggage" of western countries.

On the other hand with regard to challenges, China-Africa relations have affirmed China's presence in Africa as a firm fact. The task facing African countries in their relations with China is to not repeat centuries of underdevelopment and exploitation. The relations that African needs to foster with China should be those that promote a win-win situation. This is the first challenge of African countries.

Secondly, Africa is yet to develop a coherent policy and approach towards China. Beyond FOCAC, African countries need to define the contours of their relations China. While China is constantly reassessing and adapting its policies to the shifting realties of African realpolitik, most of African countries do not seem to have a coherent policy strategy towards China. There is thus need to craft a strategy that engages China from a position of strength. Africa needs to collectively craft a policy with China setting out ground rules of engagement in the economic and political fields. Currently, there is no common African policy towards China.

- **H.E Zhao Yali, Ambassador of the People's Republic of China in Uganda**

H.E Zhao Yali presented the opportunities and challenges of the Uganda-China trade relations. He stated that in the 1971 struggle in the United Nations, African countries supported China to reclaim its legitimate rights in the United Nations. Africa supported China in difficult times and this was the beginning of China's friendship with Africa. He said that China continues to engage and dialogue with Africa through the FOCAC and the previous FOCAC Summit was held in Johannesburg in 2015. As a follow up to the previous FOCAC, he said that China was organizing a coordination meeting in Beijing in July, 2016.

The Ambassador emphasized China Africa Policy on non-interference when relating to other countries whereby it does not interfere in the internal affairs of those countries. He said that mutual benefit is a key principle of China's foreign policy when dealing with individual countries. He stated that as China relates with Africa, China is aware of Africa's major challenges i.e. poor infrastructure, lack of skilled personnel and funding shortages and is willing to partner with Africa in addressing these challenges.

The Ambassador referred to Uganda's Vision 2040 which aims to transform Uganda from a low income to a middle income country with per capita income of about USD 9500. He gave a scenario that if Uganda's economy grew at a rate of 7% annually; Uganda will need about 10 years to double its per capita income which is currently USD 506. The Ambassador added that while issues of human rights and good governance are very important, Uganda needs to prioritize its development agenda based on the situation on the ground.

Amb. Zhao Yali , China Ambassador to Uganda making his presentation

H.E Zhao Yali highlighted the tangible benefits that China has brought to Uganda without any conditions such as the China-Uganda Friendship Hospital Naguru; China-Uganda Agricultural project in Kajjansi; Namboole Stadium and the building of the Foreign Affairs Ministry.The Ambassador added that China is one of Uganda's largest trade partners and ranks number one when it comes to Foreign Direct Investment in Uganda. It is for this reason that the Embassy of the People's Republic of China was awarded a prize in June, 2016 by the Uganda Investment Authority in recognition of their role in attracting Chinese investors to Uganda and promoting trade and investment in Uganda. In 2015, the volume of trade between China and Uganda was about USD 640 million. China exported to Uganda about USD 550 million and Uganda exported to China about USD 86 million. The total number of investments in Uganda from China is worth about USD 2.2 billion and China plans to provide about 43,000 job opportunities.

The Chinese investments include: CNOOC, a Chinese company investing in Uganda's oil sector; and many private Chinese manufacturing factories including those for steel and plywood. Other major Chinese investments in Uganda include; an industrial park for phosphates and steel in Tororo District worth about USD 240 million; China-Uganda agricultural industrial park worth about USD 220 million; and another industrial park in Masaka. China is also an important player in Uganda's infrastructure sector on projects such as road construction; housing construction; construction of hydropower dams such as Karuma and Isimba.

The Ambassador stated that China was investing in Uganda's infrastructure sector since infrastructure is critical in attracting foreign direct investment to Uganda. The Chinese Government through the EXIM Bank of China provided 85% of the total cost (1.7 billion) with 55% in form of a concessional loan and 45% as a commercial loan. The Isimba hydro power dam had been funded to a tune of USD 600 million. The Ambassador hoped that after completion of the hydropower dams, electricity generation in Uganda would double, power tariffs would go down and more investors would be attracted to invest in Uganda.

The Entebbe Express highway is about 53Km in length and was being funded by China's EXIM Bank to a tune of about USD 350 million. H.E Zhao Yali mentioned that there were still land compensation challenges regarding the construction of the Entebbe Express highway and he promised to work with Government to address the challenges. The Chinese Government through China's EXIM Bank is also supporting the expansion and upgrade of the Entebbe Airport up to a tune of USD 250 million. The Ambassador explained that China was giving loans to Uganda at very low interest rates of less than 2% which cannot be obtained from the international market at such low interest rates. He emphasized that China is willing to undertake construction works at various rates although this has quality implications. The choice on the quality of the construction work lies with the host Government.

H.E Zhao Yali further explained that for the Chinese investments in Uganda owned by the state owned companies, the employment ration of a Chinese and local Ugandan employee is 1:8. He added that the Chinese companies in many cases prioritize goods from Uganda but are forced to source for goods elsewhere in cases where Ugandan goods fail to meet the required quality; are priced highly; or where goods are not available as is the case with steel that is need in construction of hydropower dams.

The Ambassador emphasized that about 35 years ago, China opened its doors to the outside world and has gained experience over the years which it is willing to share with Africa and Uganda. China is willing to share its development experience with Uganda in line with President Museveni's plans of developing Uganda through industrialization. He committed to continue encouraging private Chinese investors to desist from engaging in petty trade. When asked about Ugandans killed in China for trafficking drugs, the Ambassador advised Ugandans to respect laws of other countries when they travel there and added that Uganda could also consider revising its penalty for drug trafficking to make them more deterrent. H.E Zhao Yali thanked the Ugandan Government and the Ministry of Trade, Industry and Cooperatives for providing a conducive environment for Chinese investors to do business in Uganda.

- **Hon. Amelia Kyambadde, Minister of Trade, Industry and Cooperatives**

Hon. Amelia Kyambadde presented the opportunities and challenges of the Uganda-China Trade Relations. She made interesting comparisons between Uganda and China such as the GDP of China which is USD 9800, 6.5 times more than that of Uganda which is USD 1500. Another comparison was in form of the population size where China's population size (1.35 billion people) is 40 times larger than that of Uganda (35 million people). She also stated that Uganda consumes 0.02 gallons of oil per day per capita while China consumes about 0.3 gallons. Hon. Amelia highlighted the fact that trade between China and Uganda has been asymmetrical in favour of China. Total trade between Uganda and China in 2015 was about USD 932.8 million with Uganda contributing about 6.2% of the total trade through exports of USD 57.7 million. She stated that China ranks 2nd as Uganda's source of imports after India and ranks 12th as Uganda's export destination.

Hon. Amelia Kyambadde highlighted opportunities that Uganda can harness in the China-Uganda relationship. These included duty-free market access to selected items from sub Saharan least developed countries including food, live animals, manufactured goods and textiles. China's large population (1.35 billion) also provides a potential demand for Ugandan products. The Minister illustrated this further with a scenario that: if 1% of China's population were to consume Ugandan coffee worth USD 1 each, per day, Uganda would raise over USD 4 billion in coffee sales to China annually, which is more than Uganda's current total exports. China's technological advancement is another opportunity for Uganda to learn from especially in the area of value addition.

Hon. Amelia Kyambadde highlighted the challenges in the Uganda-China relationship as the wide trade deficit of USD 817 million in 2015 which represented about 15% of Uganda's total import bill. Another challenge is in form of complex rules of origin, standards and quality requirements which tend to constrain the potential of Uganda to expand and diversify its exports to China. Other challenges included lack of information on market opportunities in China; limited technology transfer and allegations of dumping sub-standard and counterfeit products onto the Ugandan market by Chinese companies. Hon. Amelia Kyambadde noted that both Chinese and non-Chinese investors including Ugandan traders are to blame for the sub-standard and counterfeit goods imported from China.

The Minister recommended the need to close the trade deficit through increasing Uganda's exports to China, something she termed as Uganda's biggest dream in this relationship. She also recommended enactment of laws that against sub-standard and counterfeit goods on the market. She indicated that the Ministry of Trade, Industry and Cooperatives was already working on such laws including the Anti-Counterfeit Bill and the Consumer Protection Bill. The Minister also informed participants that the Pre-Export Verification of Conformity had already curbed about 45% of the sub-standard goods on the Ugandan market including electrical equipment. Hon. Amelia Kyambadde urged Ugandans to move at the pace at which the whole world is moving by desisting unscrupulous business deals and corruption; changing ways of doing business and being patriotic.

Conclusion

The plenary discussions provided deep insights into possible options for maximizing mutual benefits in the China-Africa relations. Proposals for maximizing mutual benefits included: technology transfer, narrowing the trade imbalance and improving investment practices. There were also concerns about what the Chinese Government is doing to ensure environmental cleaning since many Chinese investments are in environmentally sensitive sectors. Participants also raised concerns about China's non-interference policy which they said could have serious implications ranging from support of broken regimes, weakening environmental standards, and weakening efforts to combat corruption and bad governance.

Policy recommendations

1. **Prioritize national interests**: Participants urged the Ugandan Government to copy China's example of changing its foreign policy based on its national interests. Uganda needs to think strategically and long term about what it aims to achieve in its relations with China for example how the China-Uganda relations will impact on the Ugandan economy. Uganda needs to also think strategically about the kinds of benefits accruing from the Uganda-China relations. Short of this, there is no way China and Uganda will develop together.

Participants urged Ugandans to increase their productivity and export more goods and services to China whose large population provides a ready market.

2. **Technology transfer**: The Chinese Government and private Chinese investors were urged to put in place deliberate strategies to transfer technology to Ugandans, beyond establishing industries and factories in the country. Chinese companies in Uganda were encouraged to partner with local Ugandan companies engaged in similar activities.

3. **Supporting and Monitoring Licensed Investments**:

   Participants urged the Uganda Investment Authority to improve investment monitoring in order to guide investors to follow recommended investment practices and also find out whether investors are still engaged in the licensed business activities.

   The Government of Uganda and Chinese Government were also urged to attract investors to Uganda and not petty traders who are competitors to Ugandan traders. The investors should meet the minimum investment requirements such as investment capital of USD 100,000.

   Participants also urged Government of Uganda to disseminate and share information on investment guidelines and procedures for various sectors with foreign investors including Chinese investors.

4. **Guard against counterfeits and sub-standard goods**: Participants urged the Uganda National Bureau of Standards to strengthen the implementation of the Pre-Export Verification of Conformity to reduce the number of counterfeit and sub-standard goods on the Ugandan market.

   Participants also urged Government of Uganda through the Ministry of Trade, Industry and Cooperatives to work closely with other relevant institutions such as the Ugandan immigration to fight against foreign investors who are perpetrators of counterfeit and sub-standard goods on the market.

5. **Africa should utilize condition free aid in priority areas:** African states should utilize Chinese "conditions free" aid and loans on priority areas that aim at transforming the continent's societies.

6. **Establish formal and permanent structures on policies to engage China:** African states should immediately establish formal, permanent structures to with a responsibility of crafting coherent policies and ground rules on how to engage with China.

7. **Open Chinese Markets to exports from least developed countries:** African states should take advantage of the Chinese promise made at the 3rd FOCAC meeting to further open Chinese markets to exports from least developed countries esp. from Africa by increasing the number of products receiving zero tariffs treatment from 190 to 440.

The full report on these findings can be accessed on ACODE's online information center at:

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