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Can Africa and China Learn from Each Other?

The following is a speech made by Dr. Lim Mah-Hui on behalf of the South Centre at a Seminar on the 18th meeting of Afreximbank Advisory Group on Trade and Export Development in Africa, High-level Roundtable 1– *Can Africa learn from China?*, in Beijing on July 13. The seminar was held in conjunction with the 19th General Meeting of Shareholders of African Export-Import Bank.

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The South Centre is thus very pleased to be invited here to take part in a meeting on this important topic -- the relationship and cooperation between Africa and China.

China is a huge country that has great potential to take its rightful place in the world and Africa is an emerging world player after many years on the sideline.

What can Africa learn from China's great leap into the international world economy and how can China assist Africa takes achieve its goals?

We are living in interesting and perilous times. The Chinese word for crisis is made up of two characters – danger and opportunities. Times of danger also offer opportunities to those who are able to use them to their advantage. The international economy is in its worst crisis since the Great Depression. There could be a break-up of the Euro zone with momentous consequences for the world economy; and the U.S. economy is limping along with high level of unemployment five years after the great financial meltdown. Growth in these two largest economies is below 2% at best. On the other hand, the Asian economies, particularly China, though affected are better off. Growth is forecasted to be about 8% for China and 5.8% for Africa in 2012.

Why has China been able to maintain such stellar economic performance over the last two decades? To me, the key lies in its ability to combine the positive elements of a state economy and a market economy. While a rigid and centrally planned economy of the Soviet type is unsuitable for a complex modern economy, the free-for-all market fundamentalist economy that was touted as the end of history is discredited by the present global economic and financial crisis.

I see two mega-trends or issues for the 21st century. The first is the relationship between the state and market and what is the right mix between the two; the second, related to the first, is the contest between labor and capital for the fruits of growth and its social and political consequences. On both these issues, the experience of China's development offers valuable insights.

China's spectacular economic growth took off after Deng Xiaoping introduced market reforms. One of the most important experiments he started in the late 1970s was the establishment of Special Economic Zones (SEZ) in the southern coastal region of China that had a rich history of entrepreneurship. In 1992 after he made a historic visit to the southern region again, he declared the SEZs to be a success and he pushed for expansion of market economy to the whole country. In the same year he appointed Zhu Ronji to head the powerful state planning committee and later also as governor of China's central bank. Zhu took the best of state planning and market reforms to drive the economy forward. Fortunately, he rejected the Washington Consensus and the shock therapy model that was foisted on Eastern European countries after their breakaway from the USSR. He implemented his famous 16 macro-economic policies that combined capitalist fiscal and monetary policies with outright state planning and administrative controls. He was not wedded to a rigid ideology. To everyone's surprise it worked. He brought down inflation to 1% but maintained growth at 9% by 1998 that continued for the next two decades.

China introduced market reforms, but they did not abandon state planning and controls. His theory can be termed as "managed marketization". He cleaned up the banking system, reformed state owned enterprises to become more responsive to market forces, kept a tight control over capital flows, managed China's foreign exchange rate, encouraged high savings rate, provided incentives for selected foreign direct investments, and drove a hard bargain for technology transfer. In short, instead of succumbing to neo-liberal market fundamentalism, China combined elements of state and market economy.

This is perhaps the most important lesson that China offers to countries that are looking for alternatives to neo-liberalism.

The great financial crisis of 2007-09 called into question market fundamentalism. The trickle-down theory of market fundamentalism has not worked. While it has generated growth, some of which are financially fictitious and unsustainable, it exacerbated inequality, unemployment and poverty. However, rather than taking corner solutions of either market fundamentalism or total state control, we should engage in theory and in practice to find the right mix between the two, realizing that there is NO SINGLE MODEL for all societies. There is a role for both market and state forces; and they should be harnessed and regulated to achieve sustainable development from an ecological, social and economic viewpoint.

This is not to suggest that China's growth is without problems. There are three pillars to development – growth, distribution and sustainability. China combining state and market forces has produced super-charged growth over the last two decades. But she has not adequately addressed the issues of distribution and sustainability. This is best captured by Premier Wen Jiabao's remarks after the National People Congress in March 15 2007. He said that although China has experienced steady and fast growth, she cannot remain complacent. He continued that China's growth is "unsteady, unbalanced, uncoordinated and unsustainable". How China will address the last two pillars is crucial not only for China but for the rest of the world.

In the recently concluded Rio Plus 20 summit in Brazil, all countries agreed to intensify the implementation of sustainable development, which incorporates the three dimensions of economic growth; social development, social inclusion and social equity; and environmental protection. All three have to be integrated in an appropriate model of development in the future. Of course each country and each region is free to choose how to do this. But both China and Africa have to reconsider their development strategy to take social distribution of benefits, and environmental sustainability into account, when planning economic growth.

Next, I will sketch briefly the areas that China can cooperate with and assist in Africa's development.

Over the past two decades, China's economic relation with Africa has grown significantly in terms of trade, investments, and official aid. However, most of these have been concentrated in the extractive industry and the provision of infrastructure related to this sector. There have undoubtedly been gains for African countries from this expansion of export earnings due to increased commodity demand and prices. The assistance provided by China for infrastructure development has also been favourably commented upon.

However, while the resource rich African countries have benefitted from the commodity boom generated by China, there have also been concerns raised that in many countries there has not been enough diversification of the economies beyond commodities, especially into manufacturing, for example by value addition through more processing of the commodities and manufactures based on the commodities. Also, there have been concerns about the environmental and distributional consequences of the extractive sector. It would be useful for African countries to examine more deeply these issues of economic diversification, and social and environmental issues, so that sustainable and equitable benefits can be derived from future commodity production.

Going forward, more emphasis should be placed on developing the manufacturing capabilities of the African countries be it the forward and backward linkages of extractive industries, agriculture, manufacturing for exports, as well as small scale manufacturing industry. Some Chinese firms have set up export manufacturing platforms in the textile and apparel industry in East Africa to take advantage of trade preferential status given by the US and EU countries to Africa.

Another area that China can assist is to assist African countries to build up their capacity in the pharmaceutical drug industry. Africa like other developing regions urgently require access to affordable medicines, not only for HIV-AIDS and malaria, but also for a wide range of diseases and this need will increase in the future. China has increasingly efficient drug companies that have the potential to develop and produce more medicines in the future. It would be useful to consider setting up joint ventures between Chinese and African companies. This is especially because African countries that are LDCs enjoy exemption from implementing the TRIPS agreement with respect to patents in medicines until 2016, and this exemption may also be extended after 2016. Through such joint ventures, African companies may seek to gain technology transfer from Chinese companies, while the joint venture companies may enjoy exemption from patents, thus facilitating their ability to produce generic medicines and to export them to other African countries.

Special Economic Zones have been a major catalyst for growth in China. In 2009, China announced the setting up of 7 Special Economic Zones in several African countries. This is an important experiment to build manufacturing capability, but whether this success can be replicated in Africa depends of the presence of enabling local conditions such as good infrastructure and institutional governance.

China has introduced bilateral local currency swaps with important trading partners in Asia and Latin America recently. The same could be done with African countries to generate greater trading and investment opportunities.

Finally the present global financial and economic crisis gives China an opportunity to consolidate its relationship with Africa. It is clear that there is no political will at the international level to institute any meaningful changes to the international financial architecture. Hence, the next best solution is to look for regional support and solutions. The alternative of promoting regional cooperation and groupings and a multi-polar world instead of nationalism or a single super power world should be further developed. Asia is in the process of doing it. Likewise Africa and Latin America are doing it. Continued assistance by China to Africa will serve China's long-term strategic and political interests.

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