COMMENTARY

More catalyst than juggernaut

A China-Africa scholar weighs the evidence on the effect China has on Africa's industrialisation

Conventional wisdom has it that the **Chinese** economic juggernaut is sweeping across the African continent, devastating already weak manufacturing sectors. Yet in many countries, statistics show a far less pessimistic story. Furthermore, the Chinese government is encouraging Chinese manufacturing firms to invest in Africa, creating a window of opportunity for an industrial revival on the continent.

The textile industry is central to the impression of widespread devastation. Between 2004 and 2008, 17 **Nigerian** fabric factories closed, six of which employed more than a thousand workers each. In **Zambia**, a *BBC Newsnight* reporter even suggested that Chinese managers of the bankrupt Mulungushi textile joint venture deliberately ran the factory down to make room for Chinese imports. **South Africa** negotiated two years of voluntary export restraints on Chinese textile imports to give their factories breathing space. These expired this year and will not be renewed.

Even in textiles, however, Africa shows various responses to Chinese competition. South Africa's textile exports continued to decline, and the government waited until November 2008, a month before the Chinese quotas ended, to launch a plan to recapitalise and upgrade the textile sector. Nigeria's textile industry had been suffering many years before the Chinese began to target African markets. Indeed, in 1995, the Manufacturers Association of Nigeria charged that the textile industry was 'an emaciated mirror image of its former self.' The garment industry in **Mauritius** dipped in 2005, but rebounded quickly and strongly. In **Kenya**, a large domestic market has enabled the industry to expand steadily.

Statistics suggest that despite the Chinese competition, many countries across Africa have experienced unprecedented growth in manufacturing, at least until the economic crisis began. In ten countries for which there is fairly good data from the World Bank – **Egypt**, **Algeria**, **Ethiopia**, **Malawi**, **Mozambique**, Mauritius, Kenya, South Africa, **Uganda**, and Zambia – value added in manufacturing grew steadily from an average 4.8% in 2004 to 6.2% in 2008. Surprisingly, some of this growth is due to investment from China.

Two currents come together in this new investment. Chinese policy-makers believe that many countries in Africa are ripe for investment. Chinese leaders are also pushing companies to travel up the value chain at home. Since 2005, Beijing and prosperous local municipalities have tightened the structure of taxes, tariffs, prohibitions and incentives to force change in labour intensive and/or polluting sectors like leather tanneries, mineral processing and garments. The firms now targeted to move offshore are the same entry-level 'mature' industries that began to move to China from **Japan**, Europe and North America nearly three decades ago.

Two of the tools announced at the 2006 Forum on China-Africa Cooperation – the China-Africa Development Fund and support for a number of overseas economic zones – are part of China's restructuring plan. China exported close to US$50 billion in goods to Africa in 2008. Some of these goods might better be produced closer to their markets. The overseas zones and the CADF encourage Chinese firms to relocate and help China's small- and medium-sized firms to 'go global in groups', as a Chinese official described it.

Special economic zones have been an important feature of China's development, and China itself now has more than a hundred industrial and technology zones. Some target foreign investment, but others serve as clusters to foster innovation and synergies in a particular industry. Special economic zones were recently boosted as a strategy for the least developed countries by the UN Industrial Development Organisation.

China's new overseas zones in Africa have no fixed design. They can foster exports, import substitution, regional trade or other services. For Chinese companies unused to foreign investment, the zones provide a framework that smooths over much of the uncertainty and risk. Plans to build infrastructure and energy supplies at international standards should also reduce Africa's high costs of production.

Seven overseas Chinese zones were approved for Africa in two rounds of tenders. Two are being built in Nigeria (Ogun and Lekki), and one each in Algeria, Zambia, Mauritius, Egypt and Ethiopia. All zones will eventually be open to applications from non-Chinese investors, and some will welcome local firms as well. Many of the Chinese enterprises sponsoring these zones are already running active marketing campaigns in foreign languages to stimulate interest.

Elsewhere, Chinese companies are investing in a number of manufacturing sectors. Some Chinese leather and shoe factories have moved closer to their markets and sources of supply – Hazan Shoes in Nigeria and Skyfat Tannery in Uganda. In Ethiopia, where the leather sector has been booming, Chinese investors are among those that opened six new tanneries and launched 16 new footwear and leather goods factories in 2008. Chief among them was Sino-Overseas Leather Products, its eyes on the European market.

In Zambia, China Nonferrous Metals Mining Group is developing a cluster of firms that are pulling some of the industrial chain back to Africa by producing bars, wires and cables from copper, nickel and other metals. It is also sponsoring construction of an electronics assembly cluster near Lusaka. Chinese factories producing building materials are found in Ethiopia, **Zimbabwe** and Kenya. Sino-African pharmaceutical firms are producing anti-malarial drugs in Nigeria, **Tanzania**, **Madagascar** and **Ghana**. One Nigerian firm has a joint venture with Chinese investors to manufacture tyres, while another decided to produce instant noodles and bottled water with Chinese partners. A businessman from **Sierra Leone** partnered with a Chinese firm to build a factory to process fish in Ghana. The Chinese giant Hisense produces appliances in South Africa to ship around the region.

There will be challenges to overcome. Companies will surely bring the same poor labour and environmental standards prevailing in China. Not every African country will see linkages between local entrepreneurs and Chinese companies. In **Lesotho**, **Taiwanese** investment in textiles produced jobs, but almost no spillovers or backward linkages. Yet in Mauritius, Nigeria and Ghana, local entrepreneurs have grasped the opportunity to learn from Chinese manufacturers.

Economic zones and the CADF are a striking alternative to the 'aid business' as usual. They represent China's efforts to build on its own experience. This window will not stay open forever. Those African governments and businessmen who grasp these opportunities have a chance to create the jobs that could finally move rural Africans out of poverty. ●

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