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Full length research paper

China's expanding engagement in Africa as a global influence

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This paper examines the performance, promotion, and prospects for foreign direct investment (FDI) in Africa. Factors such as political and macroeconomic instability, low growth, weak infrastructure, poor governance, inhospitable regulatory environments, and ill-conceived investment promotion strategies are identified as responsible for the poor FDI record of the region. The paper stresses the need for more trade and investment relations between Africa and Asia. It also argues that countries in the region should pay more attention to the improvement of relations with existing investors and offer them incentives to assist in marketing domestic investment opportunities to potential foreign investors. Finally, the paper argues that the current wave of globalization sweeping through the world has intensified the competition for FDI among developing countries. Consequently, concerted efforts are needed at the national, regional, and international levels in order to attract significant investment flows to Africa and improve the prospects for sustained growth and development.

Key words: trade; FDI; domestic investment; incentive to local market.

INTRODUCTION

China's more dynamic and more profitable small- and medium-sized enterprises have also been expanding beyond China's borders. In total, more than 700 Chinese companies are involved in cooperative projects in Africa. Most of these firms are affiliates of state-owned enterprises in China, particularly in the capital-intensive resource extraction (such as oil and minerals) and construction sectors (Boardman, 2007). China National Petroleum Corporation owns a 40 percent stake in the Greater Nile Petroleum Operating Company, pumping more than 300,000 barrels per day. Another Chinese firm, Sinopec, is constructing a 1,500-kilometer pipeline to Port Sudan on the Red Sea, where China's Petroleum Engineering Construction Group is building a tanker terminal. Sudan an oil importer before Chinese firms arrived; now earns some $2 billion in oil exports each year. Due primarily to oil-oriented investment, Sudan became the largest recipient of Chinese overseas investment in Africa by 2005 (Chietigj, 2005).

In Africa and around the world, China's top leaders have encouraged state-controlled companies to seek out exploration and supply contracts with countries that produce oil, gas, and other resources (Zweig and Bi, 2005) In Sudan, for instance, 13 of the 15 largest foreign companies operating are Chinese, primarily in the oil industry (Servant, 2005). Krugman (1980, 1981 and 1983) shows that comparative advantage is also a function of differences in productivity and costs that do not derive from relative factor abundance. The main effects here can be expressed through two approaches, one relating to business-environmental factors and the other to dynamic economies of scale.

The question is then, why don't sub-Saharan African countries export manufactured or value-added commodities to the vast Chinese market? The simple answer is probably that sub-Saharan African countries lack competitiveness in producing manufactured goods for both domestic and international markets. For a country to be competitive, it must be able to utilize its human capital and natural resources to produce goods and services at competitive prices. Each country is endowed with different resources, whether it is human or natural resources. China is a country that was able to turn its comparative advantage, which is a well-educated labor force and good infrastructure, to produce manufactured goods for the international market. It also avoided head-on competition with established products. It is increasingly recognized that technology plays a central role in competitiveness. Technology has been found in several studies to be one of the key determinants of trade patterns not only of developed countries but also of developing countries (see Fagerberg 1996 and Lall 2000). Even though the continent is experiencing its highest growth since the 1970s, and even though significant progress has been achieved in terms of stabilizing the macroeconomic environment in many African countries, most of the current growth has been fueled by a confluence of external circumstances and interventions, including high commodity prices, debt relief, and a favorable international economic environment. Genuinely sustainable growth, however, must be based on solid domestic foundations rather than on cyclical or exogenous circumstances. Moreover, high rates of growth over decades, like those observed in developing Asian countries, are desperately needed in Africa in order to significantly raise the living standards of its people. In this context, African countries must become more competitive. While exports in general do not have a significant effect on growth, exports with a medium and high technology content do help speed it up. A country where medium and high technology content exports represent 10 percent of GDP tends to grow between 0.1 and 0.2 percentage points more than another where, other factors being equal (Lall, 2000).

Beijing has also set up 10 centers for investment and trade promotion in sub-Saharan Africa. These centers provide business consultation services, special funds, and simplified approval procedures for Chinese enterprises seeking to invest in Africa. In 2002 the government began selecting some 50 “national champions” from the most promising or strategic SOEs in China. These large corporations enjoy a range of benefits from the government, including information-sharing networks, domestic tax breaks, cheap land, and low-interest funding from state-owned banks. China’s more dynamic and more profitable small- and medium-sized enterprises have also been expanding beyond China’s borders. Chinese private investment in Africa is driven by "push" factors including intense competition and excess production capacity at home; and by "pull" factors including commercial opportunities presented by potentially large African markets (Gu, 2007).

Factors such as political and macroeconomic instability, low growth, weak infrastructure, poor governance, inhospitable regulatory environments, and ill-conceived investment promotion strategies, are identified as responsible for the poor FDI record of the region. The paper stresses the need for more trade and investment relations between Africa and Asia. It also argues that countries in the region should pay more attention to the improvement of relations with existing investors and offer them incentives to assist in marketing domestic investment opportunities to potential foreign investors. Since the mid-1990s, there has been a relative improvement in economic performance in a number of African countries as a result of the change in policy framework (Fischer et al, 1998).

Chinese firms are building Sudan’s Merowe Dam, worth $650 million, and a hydroelectric plant at Kafue Gorge in Zambia, worth $600 million. By 2005 the accumulated value of Chinese firms’ construction contracts in Africa had reached $34 billion, placing 43 Chinese construction companies among the 150 global leaders in this sector (Sautman, 2006). By 2006, approximately 74,000 Chinese workers were involved in Chinese projects in Africa on a temporary basis, ranging from higher-paid “foreign experts” to menial laborers. Although this represents a small percentage of the almost four million Chinese sent abroad to work, their presence is concentrated in high-profile Chinese construction projects, drawing attention from international media and Africans. Until recently, FDI was not fully embraced by African leaders as an essential feature of economic development, reflecting largely fears that it could lead to the loss of political sovereignty, push domestic firms into bankruptcy due to increased competition and, if entry is predominantly in the natural resource sector, accelerate the pace of environmental degradation. Moss, Ramachandran and Shah (2004) argued that much of African skepticism toward foreign investment is rooted in history, ideology, and the politics of the post-independence period.

The largest Chinese population is in South Africa, estimated at more than 100,000. Tens of thousands of Chinese also live in Algeria, Nigeria, Sudan, and Zimbabwe. Most long-term Chinese residents in Africa are small merchants who sell inexpensive consumer goods, often with very little capital. In Senegal, small-scale Chinese enterprises have sprung up, importing inexpensive goods and running restaurants and Chinese medical clinics (Polgreen, 2006). Chinese medical clinics became so widespread in Zambia that the government had to step in to regulate herbal medicines. Chinese shops and restaurants also cater to the 110,000 Chinese tourists who visited Africa in 2005, a 100 percent increase over 2004 (Broadman, 2007). China’s complex and expanding role in Africa presents challenges and opportunities to Western and African interests and deserves far more nuanced and in-depth analysis.

The most important Chinese bank in Africa policy is the Export-Import Bank (Ex-Im Bank). The Ex-Im Bank is the sole state-owned entity that the Chinese government uses to dispense official economic aid worldwide, including to Africa. The Ex-Im Bank provides low-rate loans to African governments for aid programs and encourages Chinese firms to invest in Africa through export credits, loans for overseas projects, and international guarantees. In total, 80 percent of all Ex-Im Bank loans to Africa go to five countries: Angola, Mozambique, Nigeria, Sudan, and Zimbabwe, with 40 percent of funds in the power-generation sector. Such government support was listed by Chinese firms as the second most-important factor, following the pursuit of new markets, in their decision to invest in Africa (Broadman, 2007). In Ethiopia, for example, some Chinese construction firms have been instructed by their provincial governments to make unprofitable bids to get a foot in the door for future undertakings. Such practices may secure market access but can also lead to long-term financial dependency on the Chinese government.

China’s constructive approach with Africa

China’s engagement with Africa has reached a new peak and continues to grow exponentially. Today, China has definitely acquired the status of a new donor for Africa. Most African representatives highly welcome the Chinese engagement and its philosophy: cooperation for mutual benefit, negotiation on equal level, no interference in internal affairs, and access to loans for large infrastructure projects with “no strings attached”, green field investments in the exploitation of untapped raw materials, etc.

China's new engagement is one of the reasons why the African continent got back into the focus attention of development cooperation and international investors. All in all, Africa is in a winning position, regaining international investors' confidence and getting wider access to grants and loans needed for urgent public investments in infrastructure and productive use of its abundant natural resources. Resource poor countries whose economy is still mainly based on agricultural products benefit from a growing demand in China and affordable imported manufactured goods, but their balance of trade tends to be negative. If they do not manage to enter into food processing, their long term development perspectives do not seem to be very promising. Resource poor countries with light industries, like South Africa, enter in direct competition with goods from China, be it on the regional or the global markets. As their private sector is not yet competitive on the world market, and does not benefit from public subsidies and preferential loans (as well as an undervalued currency), it is hit hard by competitors from China (Schmitt, 2007).

Therefore, the long term development perspectives of this “second chance for Africa” heavily depend on how Africa and its governments handle the situation and whether the African private sector is able to benefit from increased FDI in a sustainable manner. The elaboration and implementation of an enabling framework for the private sector and the incentives that can be put in place through trade agreements, currently under negotiation what concerns the EU, might play a decisive role (Schmitt, 2007). It is evident that China has a clear political and economic strategy with regard to Africa. But Africa and the African states have not yet elaborated a China policy. It is time to work on this issue. The profusion of Chinese corporations involved in Africa is part of China’s “go out policy, which is designed to develop these corporations’ technological skills, exploit China’s comparative advantages, gain access to key inputs, open new markets abroad, create global Chinese brands, and help China to avoid becoming overly dependent on export-led development (Accenture Consulting Group, 2005).

China’s recent push into Africa is driven by a desperate need to find oil and industrial raw materials to feed its resource-guzzling, and the world’s fastest growing, economy. China’s economy has grown by an average of 9 per cent per annum in the last 25 years and its energy consumption has doubled and outstripped domestic energy production. Within the decade from 1990 and 2000, China’s combined share of the world’s consumption of aluminum, copper, nickel and iron ore more than increased from 7 per cent to 15 per cent and has been rapidly growing. Rapid industrialization has also led to industrial overproduction and Chinese firms are equally in need to cultivate new export markets for their manufactured goods. Second, China pledges large amounts of aid and investments in Africa's infrastructure and other sectors with no political strings attached, except withdrawal of diplomatic relations with Taiwan. The third, and part of China’s “going global” strategy, involves the use of aid donations to encourage Chinese companies to internationalize and acquire overseas assets, especially oil assets, in Africa through influencing African governments to do fealty in the award of Chinese government-funded contracts or assisting Chinese companies with generous loans and credits to outbid competitors, including sometimes overpaying for equity positions or underbidding contracts.

Similarly the scarcity of capital is also impacting negatively on the development of African infrastructure. According to the Development Bank of Southern Africa (DBSA), prior to the crisis Africa had committed to 2361 such projects. Currently, 1,114 projects are going ahead – a massive reduction of 52.8 per cent (Corkin, 2007**).** This is due largely to the fact that the crisis has made ‚financing (both debt and equity) more onerous and difficult to secure (Cropley, 2009**).** China has definitely become a global player in Africa. This will affect China’s political influence in Africa as well as its competition with other donors in the loan sector. It might also set new priorities and weaken the governance agenda promoted by Western states and NEPAD. Investment in Africa’s infrastructure might become more important than governance and public finance. However, this must not negatively affect Africa’s development perspectives.

How African nations benefit from China’s investment

Chinese private investment potentially offers a number of benefits including an additional source of investment capital, employment opportunities, a significant multiplier effect through the local economy by way of local sourcing and the provision of local management expertise, technology transfers, and the sharing of production, management, distribution and marketing skills. Despite Chinese government policy to encourage overseas investment by Chinese firms and their perception that this offers a "win-win" strategy for Africa, links between Chinese government policy and private sector firms are in practice relatively weak. However, these relationships are currently fluid, so there are opportunities for China's public and private sectors to build constructive relationships that contribute to both Chinese and African development goals (Gu, 2007). African states can do more to maximize their own development gains, by developing a multi-dimensional response through government, private sector, unions and NGOs, to establish a constructive policy framework for foreign direct investment.

The majority of Chinese private firms investing in Africa are small and medium enterprises (SMEs). They are risk takers, with a powerful work ethic, prepared to accept low initial profit margins in order to position themselves for longer term expansion. The majority come from a small number of Chinese provinces and coastal regions. Most firms start as traders, moving into manufacturing and subsequently to the establishment of industrial parks (which provide mutual support and coordinated production). Local labor is employed mainly in production, with Chinese in managerial positions. Many Chinese companies have weak linkages with local African firms, thus limiting the transfer of technology and business skills (Gu, 2007).Yet, Chinese enterprises are spending around $1 billion to set up an special economic zones (SEZ) on the island a thousand miles off the coast of the African continent, and on his most recent tour of Africa, China's president Hu Jintao ensured that Mauritius was one of the six countries he visited. Despite a scarcity of land, energy and water, the Mauritian government has displaced hundreds of farmers, offered Chinese businesses generous incentives to move into the area, and has spent millions building infrastructure in and around the zone (Horta, 2010). Mauritius is somewhat atypical of China's main partners in the region and the other proposed SEZs. Rather than promising profitable material or human resources, Mauritius presents itself as an ideal gateway between Asia and Africa and could act as a regional business hub due to its market-access, stability and business climate.

In theory, SEZs can be hugely beneficial to host nations despite the liberal economic policies enjoyed by those within the zone. They can generate local employment, create a surplus of expertise and technical knowledge, engender positive links with the domestic economy and help the realization of industrial transitions in specific sectors of the economy. If foreign firms are not in direct competition with local companies and there are efforts to encourage integration, inclusion and knowledge transfers, SEZs can be very beneficial to host countries. Indeed, Mauritius' growth since the 1970s and its diversification from a mono-crop economy into one also based on textiles and tourism were premised on the creation of export processing zones whose tax incentives lured foreign investors.

Once established in a specific locality, Chinese enterprises often seek to expand the scope of their operations, both geographically and in terms of the types of projects undertaken. For instance, many Chinese companies look for opportunities within regional contexts - as observed through the Nigerian and Guinean based firms expanding their presence into surrounding countries, such as Sierra Leone, as demand for construction grows. Similarly, while seeking large-scale government projects the companies will also engage in small scale private projects. This operational flexibility has been important in allowing Chinese companies to flourish on the African continent. In so far as the emergence of small scale Chinese traders have enabled African consumers to gain access to new products and services that were previously either unaffordable or inaccessible, these Chinese enterprises have also served to promote Chinese entrepreneurship in Africa, more especially its presence amongst the informal sector through the establishment of new markets (Corkin, 2007).

African Nation's Trade with China

Most African government officials, embittered by unfavorable aid conditions imposed by the cartel of the Paris Club and the international financial institutions, see China as a reliable, non-imperial alternative player that offers and inspires alternative routes to development. They are gratified that their ailing economies are being bolstered by high Chinese demand for their resource exports and by large investments in infrastructure and other critical sectors long neglected by Western donors. Sections of the local population, including environmental and human rights groups and businesses, are however displeased by some un-savoury aspects of the Chinese profile, such as the deployment of Chinese labor that limits local employment opportunities, poor labor and environmental standards, and exterminatory Chinese export competitiveness.

The critique from the West mainly refers to China not respecting international standards in the fields of governance and debt sustainability, social and environmental standards as well as the long term development perspectives of African states. China's interventions are assumed to undermine the governance agenda negotiated in the past years that aims at setting the basis for sustainable development through prudent management of public finance and through setting up an enabling framework for more foreign direct investment urgently needed to sustain growth and increase formal employment. It is argued that China's main interest is to exploit Africa's raw materials urgently needed to maintain China's path of development founded on resource intense industrialization; but that China has little interest in Africa's development (Schmitt, 2007).

Nonetheless, official Chinese economic engagement with Africa still stresses two key political considerations: First, a quid pro quo recognition of Taiwan (Chinese Taipei) as an integral part of China; and second, adherence to the official principals of engagement, i.e., equality among partners, mutual benefit, respect for sovereignty, use of interest-free grants and loans, beneficiary capacity building, compliance with obligations, provision of equipment made in China and same living conditions for both Chinese and local experts (Larkin, 1971; Chaponnière, 2009).

On the whole the majority of Africans believe China can have a positive influence on Africa's development if the negative aspects of its business and aid practices are addressed. African governments could also maximize the benefits of the African engagement for their communities if they actively promoted policies and rules of engagement to address issues regarding domestic trade capacity and environmental and labor standards. For traditional donors, it is time to engage China as a major player in designing the rules of global economic governance and to review aid conditions to identify what does and does not work for African development in order to continue to remain influential and credible in Africa.

China could equally enhance the interlocutory role it seeks and safeguard its long term economic interests in Africa by working with others to prevent the break-up of resource-rich, but conflict-ridden countries. Approximately 70 percent of registered African exports to China consist of crude oil and 15 percent of raw materials. This specialization is accompanied by a very strong dependence of certain countries, since nearly 100 percent of Angola‘s and Sudan‘s exports are made up of crude oil. Compared to these types of major products, agricultural exports have a modest share even though they often constitute the bulk of export of several African countries. This has also been confirmed by research of a number of sub-Saharan African countries which shows that there is an imbalance between Chinese demand and African supply in this sector (Villoria, 2009).

In general, official Chinese economic activities in Africa are structured on a bilateral basis, with discussions being held between China‘s central government and its African counterparts. It is in this context for example, that several Chinese state-owned banks have devoted their operations to backing China‘s presence in Africa. However, official China‘s presence in Africa is not only confined to the Chinese central government‘s activities. An increasing number of Chinese local governments often act independently of the central government in establishing economic (and other) engagements across Africa; mainly through the firms they own (Chen and Jian,2009). Chinese human development assistance has focused on training and the provision of health personnel. Through the African Human Resources Development Fund, China awards scholarships to over 4000 students from 51 African countries to study in China every year. The recently launched China-Africa Inter-Governmental Human Resources Development Plan is part of China's strategy to cultivate African elites through training courses and seminars for middle and high ranking African diplomats and economic and management officials. In the next three years, 15000 African professionals will be trained up while 10 special agricultural technology centers will be created. China also sends Chinese trainers to Africa to give short-term courses, including on malaria prevention and treatment, applied solar energy technology and maize farming. Over the decades, China has sent nearly 15,000 medical workers to Africa and treated 170 million patients on the continent, the Chinese state-run Xinhua News Agency has said. At FOCAC 2006, President Hu also pledged to build 30 hospitals in Africa and provide a 300 million Yuan grant to fight malaria (Wan, 2011).

In contrast to other donors, China usually does not offer grants to African countries, but to increase its leverage on borrowing countries, China forgives the debts of borrowers that develop strong political and economic relations with it within an agreed timetable. This is probably what Chinese officials mean in their Africa Policy as being "ready to continue friendly consultation to seek solution to, or reduction of, the debts they African countries owe to China. China‘s FDI in Africa is closely linked to its trade and development assistance on the continent. Although marginal in terms of China‘s total outward FDI flows (0.2% in 1991 and 9.8% in 2008) and total FDI received by Africa from the rest of the world (6% in 2008), there have been substantial increases in volume in the last 10 years, coupled with expanded Chinese-African trade (Kaplinsky and Morris, 2009).

Chinese exports to Africa are composed mainly of machinery, transport equipment, textiles, apparel, footwear, and other manufactured materials while crude oil and raw materials dominate Africa's exports to China. Nearly 70 per cent of total African imports were oil (US$14.6bn), with iron ore (US$741m), cotton (US$677m), diamonds (US$502m) and logs (US$495m) together making up 11.4 per cent. Angola (US$6.6bn) was the largest supplier of crude oil. By February 2006, Angola had surpassed Saudi Arabia as China's largest source of crude oil supplies. Other major crude oil exporters to China were Sudan (US$2.6bn), Congo (US$2.1bn), Equatorial Guinea (US$1.4bn) and Libya (US$0.96bn)). Chinese enterprises investing in strategic sectors such as oil, ores or infrastructure are mostly state-Owned and /or subsidized with Chinese grants or by state-owned banks. these enterprises office manage large investment projects (Kaplinsky, and Morris, 2009) instance, the state-owned China National Petroleum Corp. (SNP) is leading foreign investor in Sudan. SNP is controlled either by the central or local government in China (Chen and Jian, 2009).

China's political relations with Africa date back to the 1950s when relations between the two were based on a mutual ideological struggle against powerful international actors and, more important, on China’s desire to balance off Soviet and American influence in Africa. China continues to play the colonial card in its relations with Africa by emphasizing a shared exploitation by imperial powers. To win hearts and minds in Africa, China is promoting itself as a de facto leader of the developing world, a developing country better able to understand African challenges and possessing stupendous material and political power to protect African interests in the international system. The case of infrastructure is particularly important because the sector is a key driver of economic growth. Historically, it was one of the first sectors in which China invested in Africa. Over 35 African countries are engaged with China in infrastructure financing arrangements and the largest recipients are Nigeria, Angola, Sudan and Ethiopia (Cheng and Yu, 2006).

Through its assistance program, China is also seeking to weaken the influence of Japan in the developing world. By asserting itself as a leader of the developing world, China promotes the interests of African and other developing countries in the United Nations, including supporting the expansion of the permanent membership of the UN Security Council to include an African country. In return, China counts on the support of African countries for Chinese foreign policy interests in the UN and Asia. Meeting the objectives of both China and African countries will require an active partnership and a framework for collaboration that includes engagement from host governments, processes for phasing-in local control, communication and enforcement of standards, and support for integration with local economies.

One of Africa’s biggest challenges is building physical infrastructure to support development and to "facilitate the flow of goods and services between individuals, firms, and governments," Calestous Juma, Kenyan expatriate and Harvard Professor for International Development argued. But the “international community ... [has focused] on relief and emergency activities” and other “short-term palliatives aimed at reducing the visible symptoms of low levels of economic productivity.” Not only have Western donors and investors long neglected investment in Africa's infrastructure; they are also failing Africa on their own promises to double humanitarian aid. In contrast, “the Chinese government is not only fulfilling its aid promises to Africa,” a Zambian policy-maker noted, “but it is also encouraging Chinese companies to invest in infrastructure development in Africa.”

How China tackles international regulations

The volume of loans disbursed by Chinese banks to governments in Africa raises other questions. Does China respect the debt sustainability framework (DSF) and other financial sector standards? There is not much transparency regarding the volume and the conditions of Chinese credits to African governments. Therefore, it is very difficult to assess their possible impacts on the economy and debt sustainability. It is assumed that Chinese banks and construction companies do systematically undercut the interest rates and benefit ratios of other international banks and companies as they have access to preferential loans financed by the Chinese government – this might result in the long run in a monopoly for Chinese banks and companies on the African continent.

It is assumed that approx. 1 million Chinese live in Africa today (Asche 2007). Public construction works executed by Chinese companies, be it under contract with the host country or financed by Chinese ODA, are mainly undertaken with Chinese workers. Many of them stay in their host countries after ending their contracts and move into the entrepreneurial and commercial formal and informal sector. Certainly, Chinese immigrants compete directly with African entrepreneurs and traders. There is evidence that they enter even small markets in remote areas and compete with informal small scale traders.“China’s growing role in Africa is not transitory. As China-Africa economic relations are increasingly based on trade and investment, and trade is based on more than just commodities, the relationship is likely to expand, along with economic growth in China and Africa. Economic relations are increasingly dominated by commercial ties rather than by aid considerations“(Wang 2007). The private sector, rather than government ministries, is increasingly the engine of economic exchange between China and Africa. This underscores the importance of improving the investment climate and strengthening the regulatory framework to achieve win-win outcomes. It further points to the importance of trade relationships and trade agreements.

Finding

To improve Africa export competitiveness, African should countries to focus on one or a combination of measures. African countries should set up R&D and technology centers to assist enterprises in technology acquisition and transfer, as well as product and process development. These centers would also teach operatives operational and safety procedures and set standards for locally produced goods, and set up and support technical training institutions to increase the base for technical-skills formation. Beyond above all, need to target and attract high quality FDI to build competitiveness through technological upgrading. As they develop large internal reserves of skill, technical support, experience and finance to design and implement the learning process. In the process they will have access to major export markets, established marketing channels and well-known brand names. There is need for African countries to promote political stability through democracy, promote macro-economic stability through building capacities of policy makers and improve infrastructure by increasing expenditures on roads, railways and power to attract FDI.

There is a need for African countries to promote local enterprises. Korea and Taiwan rely primarily on domestic firms, many now large MNCs in their own right, and invest heavily in skill development, R&D and institutional support for such local enterprises. If African countries need to have a comparative advantage or competitiveness with China should support local enterprises to link with transnational corporations to achieve technological goals, as these private actors are increasingly playing a leading role in world production, trade and finance. There is also need for supplier support and quality improvement awareness among local enterprises. To accomplish the comparative advantage over Chinese enterprises there is need for African countries to diversify their products or activities requiring more skills or value-added. The East Asia demonstrated this, and China has replicated that and other countries are replicating it in select sectors. African countries should follow the same path to succeed.

Conclusion

African nations must restructure their industry to compete with the global economy must be built on the existing industrial base, so they can prosper in an increasingly open international economy. The industrial base consists overwhelmingly of agro-related sectors, and nearly two-thirds of the workforce produces less than a quarter of GDP. Therefore, the use of industrial development could raise agricultural productivity and accelerate growth and raise living standards. Agricultural output could be stimulated by the production of inputs such as fertilizer and simple machinery, and by the further processing of agricultural products. Industrial competitiveness and productivity growth depend on strengthening technological capability. This has been demonstrated by the rise of East Asian countries, which, despite their recent financial difficulties, remain formidable competitors. The problem is that to start such exports often requires foreign investment.

Some African countries, including Lesotho and Mauritius, have attracted Asian FDI. Efficient export promotion arrangements, such as EPZs, are key features, but require bureaucratic efficiency and a relative absence of corruption. In the search for export products, it is important not to overlook the need to raise productivity in many traditional agricultural exports as this is low by international standards. Countries like Malaysia and Indonesia, which became successful exporters of manufactures in the 1980s, also invested in their commodity exports and have seen their primary commodity market shares rise at Africa's expense. Raising the rate of economic growth requires savings and investment to rise. Rising investment is a vehicle for the embodiment of technical change. To stimulate domestic savings and investment, macroeconomic stability is needed. Households and firms must also believe that policies will be sustained. Equally important is the strengthening of the framework of property rights within the rule of law so that contracts can be enforced and savers and investors can make long-term plans.

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