FOCAC 2012: Sino-African Partnership Gains Momentum

The recently concluded triennial Forum on China-Africa Co-operation (FOCAC) in Beijing has become arguably the most important event at the centre of the ever expanding China-Africa relationship. The mechanism that was created in 2000 is intended to 'strengthen the friendly co-operation between China and Africa...to jointly meet the challenge of globalisation and promote common development'. The objective of this year's FOCAC was to elevate the Sino-African relationship to a new level by spurring more concrete commitments from both sides.

By Walter Ruigu

As this year's event took place, China-Africa trade had already reached a record high of USD 166.1 billion in 2011, with China now entrenched as Africa's largest trading partner. This represents a sharp increase from a low USD 10.6 billion in 2000. On the investment front, China's OFDI in Africa increased from less than USD 400 million in 2000 to over USD 14 billion in 2011. Apart from increased OFDI stock in Africa increased from less than USD 400 million in 2000 to USD 10.6 billion in 2011. On the investment front, China's engagement in Africa has remained dynamic on many fronts. Meanwhile, most large-scale Chinese investments into the continent are made by state-owned enterprises, but the number of Chinese private entrepreneurs and companies heading to Africa in search of opportunities has also been rising steadily. The size of deals that these players are engaged in has been steadily increasing, particularly in the manufacturing sector, as more Chinese companies establish local networks to jump-start their ambitious expansion plans.

This year's FOCAC, like those prior, has allowed observers of the China-Africa relationship to stop and gauge the progress and challenges in this partnership and chart the possible future path of this relationship leading up to, and beyond, the next conference. While the biggest story coming out of this year's FOCAC was China's offer to extend a USD 20 billion credit-line to the continent over the next three years, this year's Beijing Declaration presented a six-point proposal to elevate the Sino-African strategic partnership. The key points were as follows:

- Increase the political trust and strategic consensus between China and Africa through more political consultation, high-level visits and strategic dialogue
- Increase cooperation between the two sides in operationalising the African Union's (AU) Africa's Peace and Security Architecture (APSA)
- Strengthen China's cooperation with the AU and sub-regional organisations in Africa
- Expand mutually beneficial economic cooperation and balanced trade, adopt innovative ways to boost cooperation including deepening cooperation in trade, investment, poverty reduction, infrastructure building, capacity building, human resources development, food security and hi-tech industries
- Continue to strengthen people-to-people and cultural exchanges and cooperation between the two sides
- Further strengthen the cooperation between the two sides in international affairs

Looking back: 12 years of the Forum on China-Africa Co-operation (FOCAC)

First Ministerial Conference
- African 10 ministers from China, relating to 11 African countries, other regional and international organisations (PDB)
- Theme: Establishment of a new international political and economic order in the 21st century and strengthening of Africa's economic co-operation
- Goals: Establishing a China-Africa Cooperation Forum and the Chinese-African Co-operation Fund
- China agreed to double its ODA and provide more trade and investment opportunities between the two sides.
- Africa agreed to establish the African Resource Development Fund and to launch the Beijing China-Africa Joint Ventures

Second Ministerial Conference
- African 11 ministers from China, relating to 16 African countries, other regional and international organisations (PDB)
- Theme: Promoting Africa's economic development and the significance of economic development
- Goals: Establishing a China-Africa Fund
- China agreed to increase its ODA and provide more trade and investment opportunities between the two sides.
- Africa agreed to establish the African Resource Development Fund and to launch the Beijing China-Africa Joint Ventures

Third Ministerial Conference/Beijing Summit
- African 16 ministers from China, relating to 15 African countries, other regional and international organisations (PDB)
- Theme: "Strengthening economic and cooperative relations
- Goals: Establishing a China-Africa Co-operation Forum and the Chinese-African Co-operation Fund
- China agreed to double its ODA and provide more trade and investment opportunities between the two sides.
- Africa agreed to establish the African Resource Development Fund and to launch the Beijing China-Africa Joint Ventures

Fourth Ministerial Conference
- African 16 ministers from China, relating to 14 African countries, other regional and international organisations (PDB)
- Theme: "Strengthening China’s co-operation with the AU and sub-regional organisations in Africa
- Goals: Establishing a China-Africa Co-operation Forum and the Chinese-African Co-operation Fund
- China agreed to double its ODA and provide more trade and investment opportunities between the two sides.
- Africa agreed to establish the African Resource Development Fund and to launch the Beijing China-Africa Joint Ventures

Fifth Ministerial Conference
- African 16 ministers from China, relating to 13 African countries, other regional and international organisations (PDB)
- Theme: "Strengthening China’s co-operation with the AU and sub-regional organisations in Africa
- Goals: Establishing a China-Africa Co-operation Forum and the Chinese-African Co-operation Fund
- China agreed to double its ODA and provide more trade and investment opportunities between the two sides.
- Africa agreed to establish the African Resource Development Fund and to launch the Beijing China-Africa Joint Ventures

China's Trade Value with Africa* (USD bn, 2000 vs. 2011)

Looking ahead, the Sino-African relationship remains fundamentally an economic one. On this front, there were also notable facets of a changing relationship that pervaded the conference. For instance, a renewed emphasis was placed on cooperation with regional organisations and ultimately the AU. This came hot

Although the points are to some extent similar to what has been stated before, there were some key and subtle changes that emerged from FOCAC 2012. These included a particular emphasis on non-economic factors including factors that can be grouped under the term, 'soft power'. Moreover, it entails a greater recognition of the importance of people-to-people exchanges between the regions, greater focus on more funding for SMEs and the need for 'capacity building' and skills transfer. In fact, China promised to launch an 'African Talents Program' that will train 30,000 Africans in various sectors in addition to providing 18,000 government scholarships to African students to study in China. Additionally, China is set to launch a 'China-Africa Press Exchange Centre' in order to encourage exchanges and visits between Chinese and African media.

Nonetheless, despite this renewed emphasis on China's 'soft power', the Sino-African relationship remains fundamentally an economic one. On this front, there were also notable facets of a changing relationship that pervaded the conference. For instance, a renewed emphasis was placed on cooperation with regional organisations and ultimately the AU. This came hot
on the heels of China’s ‘gift’ of a brand new AU headquarters and its commitment to provide USD 95 million to the regional body over the next three years. Despite this move by China to engage with the continent as a whole, Africa is diverse. China faces a monumental task of trying to shape a single coherent policy with a landmass of over 50 states. It is in such cases that direct engagement with regional organisations such as the AU or even the FOCAC mechanism itself will provide a more lucid platform for engagement with the continent. In addition, the FOCAC mechanism has been a key factor that has increasingly unified the continent on various fronts. African countries are realising that greater unity while engaging China will allow the continent to level the playing field, particularly in terms of trade. Instead of having an African state with a population of less than a million and an economy smaller than most Chinese cities engage with China, regional and continental organisations can serve as a platform to increase the bargaining power of such countries.

Looking ahead: Challenges and opportunities for the 6th Ministerial Conference

If the past is any indication of the future, all concrete commitments set out during FOCAC 2012 will be achieved, if not surpassed, by the next FOCAC. With the next FOCAC scheduled to take place in South Africa in 2015, there will be some challenges and opportunities for Sino-Africa relations in the lead up to the forum. For instance, the 6th Ministerial Conference will take place under a new Chinese leadership as the current administration completes its term this year. The incoming leadership, most likely to be led by Xi Jinping, will continue to prioritise the continent’s role with China and Xi himself has declared that China and Africa need a new type of ‘strategic partnership’. The exact components of this new partnership will become clearer in the lead up to the FOCAC in South Africa.

From an economic perspective, despite China’s GDP growth slowdown, demand for various key commodities will remain high as China aims to boost domestic consumption. This means that imports from Africa will continue to remain crucial to China’s developing economy. This, juxtaposed with increasingly vocal demands from various sections of the continent for greater value-added exports warrants a deep re-examination of the current trade model. Moreover, as more Chinese firms focus on Africa’s expanding middle-class and large number of rapidly developed economies, expect to see greater Chinese investment on the continent.

As more Chinese firms move into the continent, the vast differences in the regions’ cultures, languages, economic sizes, etc. will mean that certain social tensions are likely to surface. This will be more visible at the micro economic level as Chinese firms present direct competition to local companies. With Chinese firms possessing various advantages in terms of capital and labour, the phenomenon of capitalism’s ‘creative destruction’ will become poignant and a source of friction that needs to be carefully managed by both sides.

Finally, by the time the next FOCAC takes place, the world economic climate may be quite different from its current condition that has been dominated by weak economies in the developed world. If the West, especially Europe, can engineer a recovery in time, it may spur new supply and demand factors for Africa. However, despite what happens elsewhere, it is clear that the Sino-Africa economic relationship will continue to strengthen, an expansion that needs a more balanced approach. This process is likely to occur only through what Deng Xiaoping coined ‘crossing the river by feeling the stones’.

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China’s OFDI Stock in Africa (USD mn, 2003 vs. 2010)

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Source: MOFCOM; The Beijing Axis Analysis
Expanding Sino-African Economic Relations: H.E. Madibo Charles Wagidoso, Ambassador of Uganda to China, on China’s Growing Ties with Uganda

With the recent conclusion of FOCAC in Beijing, The Beijing Axis sat down with Ambassador Wagidoso in order to assess the role of China’s business relationship with Uganda. Ambassador Wagidoso sees mining, along with agro-business, tourism and infrastructure as key sectors that Uganda can develop with China as one of its main partners. By Walter Ruigu

Please provide an overview of the China-Uganda trade and investment relationship.

Over time, particularly in the last ten years, the business relationship between China and Uganda has grown rapidly, especially in terms of trade and investments from China into Uganda. Currently, there are two core components that Uganda is pursuing. First is the sourcing of medium to large scale machinery for industrialisation in both the public and private sectors. Second is better leveraging opportunities to export to China, mainly agro-products, to meet China’s rising demand. However, we need to better identify where the opportunities lie for specific products.

Could you please cite some cases studies of successful Ugandan businesses in China?

Thus far, there are no major Ugandan companies, either public or private, that are operating in China. Most Ugandans that are pursuing business with China operate on a fly-in fly-out basis. However, there is one company currently operating in Beijing, Uganda Crane Coffee, that is taking charge in promoting Ugandan coffee and increasing exports to China. They are currently selling green bean and roasted coffee to China and working hard to develop this market.

I think there are two main barriers for Ugandan companies aiming to enter China. First is the cultural and language barrier. Some companies are quite reluctant to venture out abroad into a place they are unfamiliar with, especially if they are unsure about potential business opportunities. Second is the lack of capital as some Ugandan companies may not have enough financial resources to invest in ventures in places as far away as China. Overall, this means that there is a lack of capacity for Ugandan companies to adequately access China.

To address this issue, China and Uganda are cooperating to develop this capacity at both the private and public levels. China has already committed some funding which will be used to help develop Ugandan SMEs. At the private level, there are Chinese companies that have already set up shop in Uganda and are already cooperating with local companies.

The private sector in Uganda is also getting better organised, especially given the development of different business associations such as the chamber of commerce. The Chinese side has also moved very fast and there is currently a liaison office of the China Development Bank in Kampala, whose mandate is to reach out to local companies and SMEs and see what areas they can offer assistance. However, this will all depend on how the Ugandan private sector can respond to initiatives already being carried out by China. At the end of the day, you can take a cow to the well but you cannot make it drink; this metaphor directly applies to our private sector.

What are Uganda’s key areas of opportunity for foreign firms?

There are four key areas that I view as opportunities for foreign companies investing in Uganda. The first is tourism, the second is agriculture, third is infrastructure development and fourth is mining. Infrastructure broadly includes transportation projects, especially rail and road projects, and energy projects such as the construction of hydropower plants and dams. In terms of rail, the development of hard infrastructure is still the responsibility of the Ugandan and Kenyan governments (Note: The Kenya-Uganda railway runs from Kenya’s coast to the interior of Uganda) and this has been an area we are looking to increase development along with Rift Valley Railways, which was handed the concession to manage the railway.

Our mining sector has also been developing rapidly with opportunities in cobalt, gold, copper, iron etc. In fact, the government has just finished the legal framework on appropriation of mining licenses, exploration licenses etc. There are already many Chinese companies that are on the ground, trying to secure various licenses. There are some that are already conducting exploration and others have already begun mining operations. Of course, we are looking for companies that can invest and develop local capacity in this sector. I am convinced that mineral exports will be Uganda’s leading industry in the future.

12 years after its creation, what is your evaluation of the FOCAC mechanism?

FOCAC has been very successful in terms of strengthening economic and political cooperation between Africa and China.
Before 2000, each African country was dealing with China on a bilateral level and at that time, many African countries did not have full diplomatic relations with China. Following the establishment of FOCAC, there are now 50 countries with diplomatic relations with China. In terms of economics, the forum has allowed greater building of business ties between China and Africa. This can be seen in the increase of trade volume, from barely USD 10 billion in 2000 to over USD 160 billion today. FOCAC has also been a very important forum where China has been able to increase its support in Africa’s infrastructure development.

Uganda has directly benefited from financial support to its agricultural sector, and direct support to various infrastructure projects in the country through concessional loans and grant-aid support from the Chinese government. We are currently building a USD 350 million express highway linking the airport to the city of Kampala with the support of the Chinese government.

The USD 20 billion line of credit extended to Africa will be used for various projects that are to be presented by the African side. Previously there was a quota for each African country, but this has now been changed to a first-come first-serve basis. The countries that will be able to present viable projects first will be the ones that reap the greatest benefit from the credit line. Uganda is keenly working on submitting project profiles, feasibility studies and project proposals to the relevant banks in China.

What is your take on calls for Chinese companies to invest more on continent-wide, regional and cross-border projects as opposed to projects in individual countries?

The Chinese government has been very keen on supporting regional projects including transnational infrastructure projects. This has meant that African countries need to cooperate more on which projects are presented to China for support. For instance, in East Africa, Kenya, Uganda and Tanzania can jointly seek support on developing waterways along Lake Victoria. I think success will ultimately depend on regional governments such as the East African Community (EAC) pushing for support of regional projects before each African country can submit their own projects. Taking the EAC as an example, if Uganda, Kenya and Tanzania were to submit a project for waterways infrastructure development around Lake Victoria, I believe the Chinese government would be eager to fund such a project as it would allow the benefits to be spread over several countries.

It will be difficult for the Chinese side to decide which regional projects are viable but ultimately this knowledge must come from the African side. The challenge is that all countries must agree on which project should be prioritised.

Does Uganda currently have projects that they are working on with regional partners such as EAC that it would like to see more Chinese investment?

Currently there are two key projects with our neighbours that we would like to see more Chinese involvement. The first is the proposed Kenya-Uganda-South Sudan railway. The other is the pipeline project. As Uganda, Kenya and South Sudan now all have viable oil deposits, the aim is to build a common pipeline instead of each country constructing their own. It is now time for East Africa to present concrete proposals to China and I believe China will look very favourably on these projects.

One key issue is the difficulty of securing Chinese financing in Africa’s private sector. For example, in the Kenya-Uganda railway upgrading project, it is easier for the Chinese side to deal with the Kenyan and Ugandan governments as opposed to the private sector company managing the project.

Uganda currently has a trade deficit with China. Could you please discuss this situation and what ideas or plans does Uganda have in place to counter this trend?

As I mentioned earlier, the trade volume between China and Uganda has increased rapidly. Unfortunately, our trade imbalance with China is 1 to 10; for every USD 10 worth of goods we import, we are only selling USD 1 worth to China. This is an immense challenge and of course, the sole option is to increase export capacity in Uganda. This is why we are currently researching which products China has a demand for and how we can add value to some of the products that we are already exporting.

One of the targets of the EAC has been to develop a single currency with the region. What are your views on how this might influence China-Uganda, and China-EAC trade?

A single currency would facilitate cross-border transactions and if the currency is strong enough, would allow EAC to gain more on imports from not only China but the international community as well. While the East African Shilling would lower cross-border transaction costs, more importantly, it would mark a significant achievement towards the goal of establishing the East African Federation, giving the region a greater standing in the international community.

Are there particular types of Chinese companies that Uganda has been pursuing or would like to pursue?

We are looking to reduce the trade imbalance and one of the potential solutions is to attract more Chinese companies to invest directly in industries that have promising export potential. This means we are looking at investments in the agro-processing sectors, in products which could be continually exported to China and elsewhere. Food is becoming scarce around the globe and Uganda has an advantage in this regard.

Specific agro-products include tea, coffee, cereals and many other agricultural products. Over 80% of Uganda’s economy is reliant on the agricultural sector. We export significant amounts of hides and skins, cotton and fishery; however, there are opportunities to increase mechanisation and value-added production locally.

Uganda has been actively seeking foreign investment and not only from China. We have many incentives in place such as tax rebates for income tax and duties. There are no import taxes on capital equipment, particularly heavy machinery; access to land is not restricted; there are no capital controls and repatriation of profits is unrestricted; and our foreign exchange market is vibrant and free flowing. In addition, since Uganda is a developing country, the profit margins and returns are currently very high.