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Post-crisis Prospects for China-Africa Relations

Jing Gu and Richard Schiere

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Post-crisis Prospects for China-Africa Relations

Jing Gu[(1)] and Richard Schiere[(2)]

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Office of the Chief Economist

Abstract

China's rapid growth has transformed its relationship with Africa. Industrialization has boosted China's import demand for oil and minerals (e.g. iron ore, bauxite, nickel, copper), which Africa can satisfy. China is now Africa's third largest trading partner and the Chinese governments going global strategy encouraged Chinese companies to become multinationals. The China-Africa relationship could be described as "commodities-for-infrastructure", although a shift to broader cooperation on development is now evident. This paper discusses how China's relationship with Africa is contributing to its overall development and emphasizes the central role of the Forum on China-Africa Cooperation (FOCAC). The principal conclusion is that while China is likely to remain engaged with Africa in the medium term, to reap the full benefits, African countries need to transform this engagement into additional development opportunities.

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1. Introduction

China's rapid growth has transformed its relationship with Africa. Industrialization has boosted China's import demand for oil and minerals (e.g. iron ore, bauxite, nickel, copper), which Africa can satisfy. China is now Africa's third largest trading partner; bilateral trade with Africa reached $114 billion in 2008, up from $65.9 billion in 2007. The government's "going global policy", which encouraged Chinese companies to become multinationals, has supported a rise in China's FDI in Africa to $5.4 billion in 2009, up from a negligible amount just a decade ago. The current China-Africa relationship could be described as "commodities-for-infrastructure", although a shift to broader cooperation on development is now evident.

This paper discusses how China's relationship with Africa is contributing to development. The first section focuses on the impact of the financial crisis on Africa and China. China was able to recover from the crisis more rapidly than African countries, in part because China was in a better position to undertake expansionary fiscal policies. Going forward, Chinese success in producing more sophisticated manufactures would offer significant opportunities for Africa to break in at the bottom of value-added chain and attract investment into manufacturing. The second section explores how the relationship between China and Africa affects the development challenges they face, emphasizing the central role of the Forum on China-Africa Cooperation (FOCAC). For Africa the major issues include food security and agricultural production, climate change and adaptation technology, regional integration and infrastructure, the need for investment and export diversification, and aid effectiveness and coordination of debt relief. For China, we discuss the impact of Africa on access to hydrocarbon and mineral resources and export markets. A principal conclusion is that while China is likely to remain engaged with Africa in the medium term, to reap the full benefits, African countries need to transform this engagement into additional development opportunities.

2. Africa and the financial crisis

The 2008 global financial crisis had a severe impact on Africa. The effect of the collapse of financial markets was blunted by Africa's limited access: Africa' international bond issues totalled only $6 billion in 2007, compared to $33 billion for Asia and $19 billion for Latin America (Kasekende, Ndikumana and Rajhi, 2009). Moreover, Africa's trade and investment relationships with Asian countries cushioned the immediate impact of the US recession.

Nevertheless, by the first quarter of 2009 it was clear that economic activity in Africa would be severely depressed. The financial problems confronting Western banks limited their reinvestment of capital (or forced them to withdraw existing capital) in their African subsidiaries (IMF, 2009a, IMF 2009b). The general collapse in trade credit by Western banks and suppliers credit by multinational companies also reduced the supply of finance to African exporters. Portfolio outflows depressed prices in African stock markets. A few countries (e.g. Uganda and Tanzania) postponed plans to issue bonds on the international markets owing to the crisis (Kenya's postponement of its bond issue, however, was also due to post-election violence) and inability to compete with issues by, or guaranteed by, rich country governments.

The impact of the crisis deepened over time as reduced global demand lowered Africa's export volumes and depressed commodity prices, increased unemployment in OECD countries translated into lowered remittances to the families of African emigrants, and reduced incomes in rich countries depressed Africa's tourism revenues. The financial crisis led to the postponement of large investment projects in Africa, as Western multinationals' financial difficulties reduced FDI inflows and domestic companies saw lower profits from both foreign and domestic markets. Comprehensive data are not yet available, but anecdotal evidence shows the scaling back of foreign investment in the extractive industries in Democratic Republic of Congo, and the postponement of large investment projects in Liberia and Tanzania.

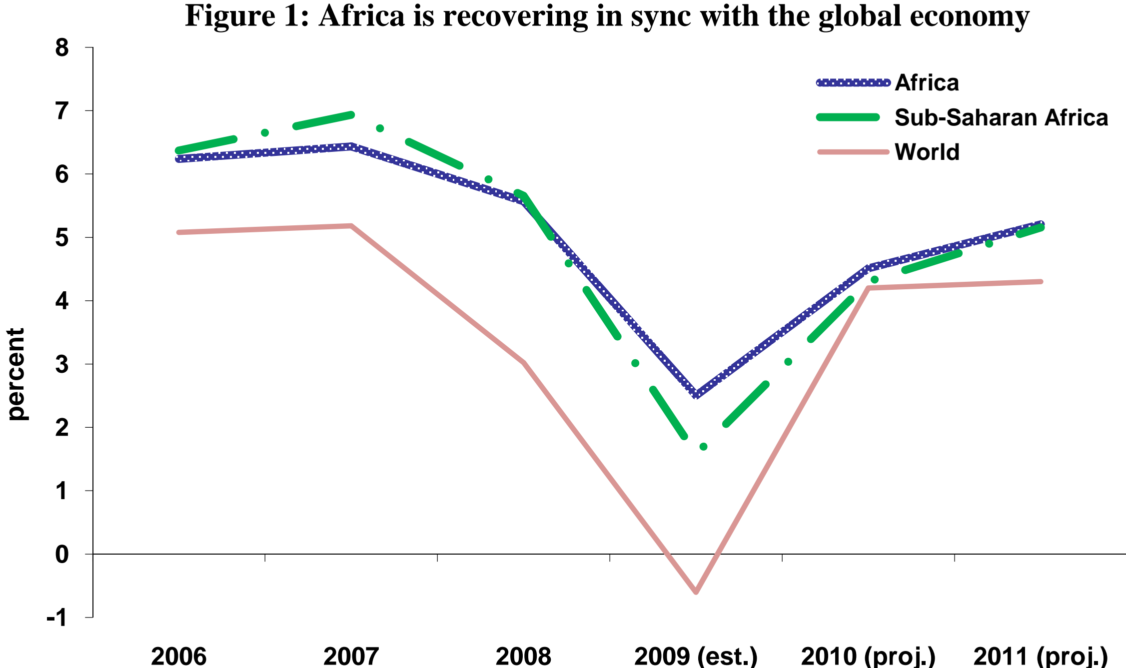
Some African countries have a highly regulated banking system with non-covertible currencies (e.g. Tunisia) before the crisis, which limited the outflow of capital. These regulations reduced the impact of the financial crisis, but current account and fiscal deficits rose (Kamara et al. 2009). Some middle-income African countries (e.g. South Africa, Mauritius, Cape Verde and Seychelles) had the fiscal space to undertake explicit stimulus packages, while many low-income countries had limited policy space.

The global recession has resulted in marked declines in growth rates. Average economic growth fell from an average of about 6% in 2006-08 to 2.5% in 2009 with per capita Gross Domestic Product (GDP) growth coming to a near standstill. The strongest impacts were felt in Southern Africa, where growth was slashed (from the average over the preceding three years) by almost 8 percentage points to negative growth of around 1%. In contrast, East Africa and North Africa proved to be the most resilient regions. Slower growth has impaired recent development and poverty reduction gains. Indeed, the cyclical downturn might have had adverse long-term effects

on poverty through the loss of human capital, as children are pulled out of school to work and unemployed workers see their skills deteriorate.

Going forward, growth is projected to strengthen alongside the recovery in global markets to reach 4.5 percent in 2010 and increase further to 5.2 percent in 2011 (Figure 1). The aggregate outlook masks substantial differences across countries and regions, though. All African regions will achieve higher growth, with commodity exporters, in particular, benefitting from the revived commodity prices and trade, and thus record a relatively sharp upturn. On the other hand, continued weakness in remittances and possibly FDI as well as low aid inflows, leave several low income and fragile countries to grow at relatively sluggish rates.

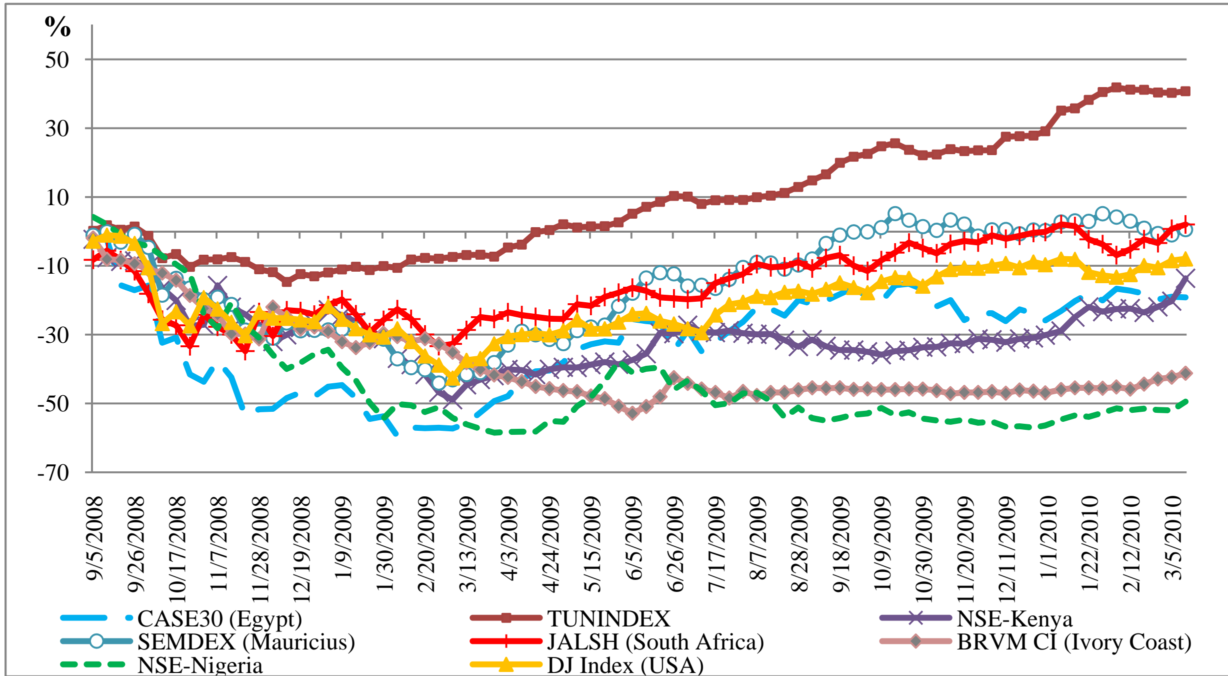
Figure 1: Africa is recovering in sync with the global economy



Source: AfDB, OECD, and UNECA: African Economic Outlook, 2010

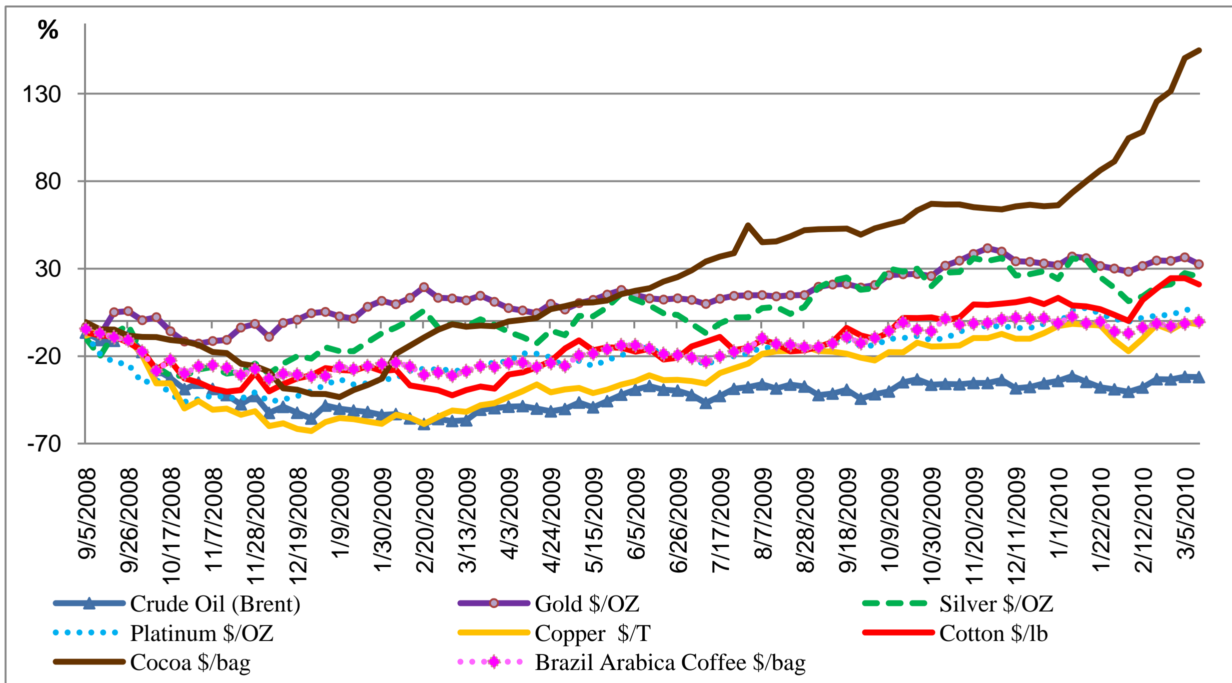
In early 2010, African stock markets, most of which suffered price declines of between 20 and 40 percent at the height of the crisis, were beginning to recover (figure 2). Commodity prices also are strengthening; cocoa and coffee prices are now higher than at the onset of the crisis, and silver and cotton prices are rising, although others—e.g. platinum—remain depressed (figure 3). The demand for commodities has been supported by relatively strong growth in Asia, particularly in China where fiscal expansion was channelled through large construction projects that use raw materials intensively.

Figure 2: First signs of green shoot: Evolution of stock markets in Africa



Source: Bloomberg

Figure 3: Evolution of main commodity prices



Source: Bloomberg

3. The impact of the global financial crisis on China and the outlook

Prior to the financial crisis, China was highly exposed to fluctuations in global economic activity. Increased reliance on the market and external demand had supported a doubling of per capita GDP and a 20 percent fall in energy consumption per unit of GDP compared to 2005 (Naughton, 2005). However, China's phenomenal growth was heavily reliant on exports, supported by large-scale FDI inflows connecting China to global production chains that ultimately depended on demand from the United States and Europe (Baldwin 2008). This export dependency of China exposes the country to potential risks in international markets (Li Cui, 2007).

Thus the onset of the global economic and financial crisis held dire prospects for the Chinese economy. In December 2008 officials reported 670,000 small firm closures in 2008 with a loss of 6.7 million jobs, many in the export hub of Guangdong (Tan, 2008). The Ministry of Human Resources and Social Security reported a loss of 560,000 urban jobs in the last quarter of 2008 and a rise in the official urban (excluding migrants) unemployment rate to 4.2% (or 8.86 million) (South China Morning Post, 2009). By January 2009, reports of migrant job losses reached 20 million, with 6-7 million new workers expected to enter the migrant labour force during the year (Cook and Gu, 2009). In the first four months of 2009, year on year exports declined by 20%, and imports by 28.7%. Export producers in southern China collapsed, with widespread company closures and bankruptcies among Small-and-Medium Enterprises (SME) in export production supply chains.

Fortunately, other forces helped to limit the full impact of the crisis. First, the health of the financial system had improved, with significant declines in banks' nonperforming loans prior to the crisis (Fan Gang 2003, Xu GuangJian 2007)**,** and financial institutions' exposure to non-performing assets was manageable, given the degree of state control and the available reserves. Second, prior to the crisis China's leaders had recognised the need for a cooling down and rebalancing of the economy. So initial measures were already in place to address housing and stock market 'bubbles', bring down inflation, boost domestic consumption and promote more equitable and sustainable growth (Xue, 2008).

Finally, China's substantial current account surplus, large international reserves and strong fiscal position provided ample scope for measures to compensate for the fall in external demand. The government implemented a four trillion yuan fiscal stimulus package (Xinhuanet, 2008) that was

heavily weighted towards transport and power infrastructure, but also included rural village infrastructure, environmental protection, and capital injections in ten industries (such as textiles) designed to further technological innovation (table 1 and Economist, 2009). The government also adopted subsidies for consumer purchases.

These policies contributed to the clear signs of recovery that were evident by July 2009. Chinese Government agencies confirmed a ‘V-shaped’ recovery of the economy from the global economic downturn (Chinaview, 2009). China’s economy grew 8.7% in 2009, retail sales rose 16.9% year on year, while FDI grew 30.1% (Consulate-General of PRC in Cape Town, 2010). China’s governmental system facilitated the rapid implementation of Keynesian policies, where money could be disbursed within weeks of the initial policy decisions (Naughton 2009).

China’s recovery has been a boon to global markets, and in particular to Africa. The recovery underpinned the rise in price of Africa’s raw material exports that took hold in early 2009, and also contributed to the rebound in global stock markets after 9 March 2009.

4. Cooperation between Africa and China

China and African countries have much to gain from cooperation to foster mutual support for development. In the past, China-Africa consultations focused on fostering mutually-beneficial trade and investment. More recently, this relationship has expanded to address contemporary development challenges such as climate change, food insecurity and energy insecurity. This engagement has been building on the Forum on China-Africa Cooperation (FOCAC) by identifying key Africa development challenges where China’s assistance could be highly useful. The discussion of cooperation through FOCAC is structured around key development challenges facing Africa (food insecurity and agricultural production, climate mitigation and adaptation technology, African integration and infrastructure, additional Chinese investment and export diversification, and aid effectiveness and coordination of debt relief) as well as for China (extraction of resources and expansion of export markets, including Chinese SMEs), emphasizing how cooperation with China could further African development.

4.1. Food insecurity and agricultural production

Hunger and malnutrition are still prevalent in some African countries and food insecurity remains a challenge for many others. Analysts at the African Development Bank estimate that seven countries, with a population of 38 million (4% of Africa’s population) are highly

vulnerable[1], while another eleven countries with a population of 330 million (33% of the total) are vulnerable (Kamara et al, 2009).[2] Similarly, UNCTAD has estimated that 21 African countries face food security crises and 300 million Africans are confronted by chronic hunger (UNCTAD, 2009). Historically, food insecurity in Africa was mainly caused by humanitarian disasters (i.e. drought, hurricanes, floods, etc.) and disproportionally affected rural areas, while food in urban areas remained largely available due to food imports.

The nature of the African food security situation worsened after 2003 with the steady rise in global food prices that affected both urban and rural areas. The price of staples spiked in 2008, with rice reaching $1000 per ton in April (up from $373 per ton in early January), wheat hitting $439 per ton in March (more than double the 2007 level), and maize reaching $288 per ton in June (up 42 percent from November 2007) (Kamara *et al*, 2009), setting off civil strife in some urban areas. The reasons for the rise in food prices included a jump in the prices of inputs (energy and fertilizer), increased demand (largely owing to diversion of food to biofuel production) and export restrictions.

The vagaries of the international market and food price volatility underline the need for greater domestic investment in food production. The FOCAC Action Plan 2010-2012 emphasizes the commitment to promoting a growth-oriented agricultural agenda by providing technology and contributing to global initiatives and south-south cooperation in agriculture development. However, coordination is required to avoid conflicts over which markets are to be supplied with food during future shortages, and to ensure that Chinese investments contribute to local employment creation rather than replacing large numbers of African farmers by introducing advanced agricultural technology that is capital intensive.

4.2. Climate change mitigation and adaptation technology

Although the extent and impact of global warming is being intensely debated, there is a growing consensus that the average global temperature will increase by at least 2°C by the end of the 21st Century (World Bank, 2010a). This increase in global temperatures has dire implications for Africa, including the expansion of deserts and additional water stress. North Africa would be exposed to additional droughts, while South and Eastern Africa would be hit by increased

[1] African countries classified as very high vulnerable are: Zimbabwe, Eritrea, The Gambia, Djibouti, Sao Tome & Principe, Niger and Mauritania.

[2] African countries classified as highly vulnerable are: Ghana, Senegal, Mozambique, Cape Verde, Morocco, Burkina Faso, Cameroon, Rwanda, Congo Republic, Kenya and Nigeria.

flooding and hurricanes. Disruption to the major African rivers, such as the Nile and Congo, will imperil the livelihood of millions of people. The UN Intergovernmental Panel on Climate Change estimated that between 75 and 250 million Africans will be affected by water stress due to global warming. Food insecurity will rise as yields from rain-fed agriculture, still the dominant form of production in sub-Saharan countries, could be reduced by up to 50% (IPCC, 2007). Some research indicates that, over time, staple crops such as maize will even be difficult to grow (Collier, Conway and Venables, 2008).

These challenges highlight the importance of efforts to mitigate the impacts, including more sustainable land and forest management, more efficient use of water resources and, although Africa contributes only a small share of global carbon emissions, cleaner energy (such as geothermal or hydro power) and the creation of sustainable urban transport systems. An investment program in climate mitigation measures could require an additional $75-100 billion per year (World Bank, 2009). China could make a contribution to this investment program and to building capacity in Africa to mitigate climate change. For example, the FOCAC framework emphasizes that China is willing to contribute to satellite weather monitoring, clean energy projects, prevention and control of desertification and environmental protection.

4.3. *African integration and infrastructure*

Increased infrastructure investment is essential to increase African productivity. The African Infrastructure Country Diagnostic (AICD) estimates that the continent would require $93 billion a year both for new investment as well as for maintenance over the next decade, in order to achieve national development goals in Africa. The large number of small countries (25 have populations of less than 10 million) underlines the importance of regional projects, where larger investments can generate greater economies of scale. In addition, Africa's 13 landlocked countries require regional transport plans to ensure access to sea ports. While China is an important investor in African infrastructure ($11 billion in 2008, compared to $13.7 billion by the G-8 countries-ICA, 2009), Chinese investments are generally determined by bilateral engagements with individual African countries, and often lack a regional perspective. Hence, there is a large untapped potential to leverage China's investments for regional infrastructure projects.

Another important issue for infrastructure development is to ensure adequate maintenance. Too often African governments, with assistance from China or traditional donors, have invested large

resources in infrastructure projects without providing the funds required for maintenance. For example, the Chinese-funded flagship Tanzania-Zambia railway project was an amazing engineering achievement, with over 1800 kilometer of tracks laid through mountainous terrain and 320 bridges built. However, financial difficulties, mismanagement, and underinvestment degraded maintenance, with the railroad chronically underutilized due to a lack of functioning locomotives. African governments should, thus, ensure that adequate resources are provided in government budgets for infrastructure financing projects and maintenance.

4.4. Chinese investment and export diversification

The economic relations between China and Africa have often been referred to as being based on "infrastructure for commodities" deals, where Chinese investment in African infrastructure is financed by Africa's exports of commodities and raw materials. This relationship has indeed been beneficial for Africa, and China's contribution to global demand for raw materials has increased African export revenues from all markets. However, many African economies need to diversify their exports to reduce reliance on highly-volatile primary commodities, with adverse implications for macroeconomic stability. China is taking some steps to support African manufactured exports: China is in the process of expanding the zero-tariff treatment to 95% of the products for African LDCs (see Box 1), and is investing in Special Economic Processing Zones, which have been set-up in Mauritius and Zambia, while others are being considered in Egypt, Ethiopia, Liberia and Nigeria.

Box 1: Ethiopia-China: the opportunities and challenges of trade diversification

Ethiopia provides an example of the nature of trade relations between China and African countries. Ethiopia's trade with China rose from $100 million in 2002 to $860 million in 2008. Ethiopia exports to China products like sesame seeds, leather goods, and coffee, and imports from China clothing, machinery, food items, pharmaceuticals and electronics. Ethiopia's trade deficit with China equalled $470 million in 2007. China supports Ethiopian exports through a zero tariff policy, leading to a rise in Ethiopia's exports to China (primarily driven by sesame seed products) from $14 million in 2004 to $85 million in 2005. Chinese exports of textiles and footwear reduced the income, assets and property of small-scale Ethiopian producers, leading many to turn towards production in the informal sector. On the other hand, medium-size Ethiopian firms have attempted to improve designs, quality, delivery time and invest in newer machineries as part of a broader strategy to cope with Chinese competition. Due to the poor quality of certain Chinese goods, such as shoes, blankets, toys and plastic products, the government has established a Joint Committee on quality control, which certifies quality before they can be imported in Ethiopia. Moreover, the Ethiopian government is attempting to support local industries, and has listed a number of areas of investment reserved for domestic investors only, including: export of raw coffee, qat, oil seeds, pulses, leather hides and skins; grinding mills; saw milling and timber-making products; and printing industries.

Source: Chris Alden, SAIIA.

Africa's desire to diversify its exports could fit well with China's goals of structural transformation. As manufacturing wages have risen in China, labour-intensive industry has moved to low-income countries such as Vietnam and Cambodia. While these Asian countries have an advantage in terms of cultural and geographical proximity, Africa also has a vibrant labour force and an increasingly stable and attractive business environment. For example, Tunisia is ranked 40th in the global competitiveness report, i.e., higher than Vietnam and Cambodia, ranked 75th and 110th respectively on the same index (World Economic Forum, 2010). Rwanda is another country that has achieved rapid improvement in its international standing, from 143rd to 67th in the latest World Bank's Doing Business Report, ahead of India, Italy and Turkey (World Bank, 2010b). Therefore, Africa could be considered a destination for further Chinese investments in manufacturing, which would benefit both parties.

4.5. Aid effectiveness and coordination of debt relief

China is sometimes referred to as an emerging development partner, although this country has had an aid program since the 1950s. ODA (as defined by the DAC) amounts to about $1.5 billion (Brautigam 2008), and is mainly allocated to "all weather friends" such as Egypt, Ethiopia, Mali and Tanzania. However, it is difficult to estimate the size of Chinese aid, as China does not make the DAC's distinction between Official Development Assistance (ODA) and Other Official Flows (OOF); credit and aid data on African countries are fragmented over more than 20 line ministries, public banks and other agencies; and China's assistance includes a wide range of activities such as providing grants, scholarships, and building infrastructure projects.

Although Chinese investments are often highly effective in terms of cost and implementation, their development impact remain frequently limited. It could be enhanced by encouraging increased reliance on local suppliers, that is, employing more African labour and subcontracting project components to African companies. African governments have increased local content requirements governing foreign investments. For example, Nigeria recently tightened requirements governing local firms' participation in oil contracts and Angola has in the past required the use of local construction materials.[3] Such national regulations can, however, only be effective if there is an adequate governance framework, transparency and engagement of African civil society.

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[3] For Angola, see http://www.internationallawoffice.com/newsletters/detail.aspx?g=96305c12-67af-49e1-b7c5-edca2a2043e1; for Nigeria, see http://www.petroleumafrica.com/en/newsarticle.php?NewsID=9856&format=print&PHPSESSID=1ff4ac81a5a1ecf0dcaaf8ca60f5ccbe

Coordination between China and traditional development partners on debt relief could also be improved. China announced at the latest FOCAC event that it would write off 168 debts owed by 33 African countries. This could be an area which would be relatively easy to work together with traditional development partners under the frameworks of Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Closer coordination could prevent situations like that faced by the DRC, which could not qualify for the completion of its $6.3 billion debt relief unless the terms of the Chinese investment package were amended. Although the DRC case was resolved by amending the China investment deal, coordination and information sharing between China and other development partners could have avoided delays and controversy. Closer coordination could be achieved through Chinese participation in the Paris Club and consultative group meetings, and by inviting traditional development partners as observers in the FOCAC meetings.

4.6. Chinese SME development in Africa: Evidence from an enterprise survey

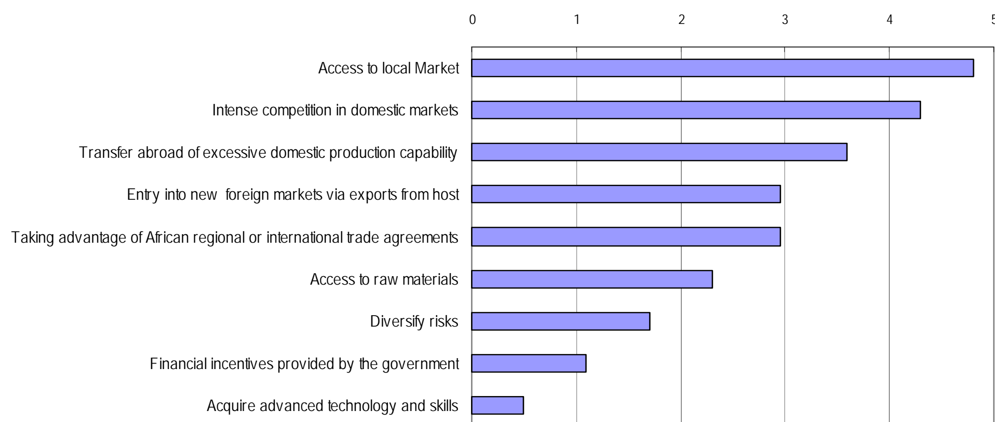
While China's investment in mining and infrastructure is dominated by public companies, small- and medium-sized enterprises from China's private sector are also making significant investments. Many textile producers are already shifting from China to Africa, and there is considerable potential to relocate the whole range of consumer durables, automobile and other transport manufactures, and electronics. Survey research undertaken for this study points to the main drivers of investment in Africa by China's SMEs.

The survey data reveal that Chinese managers have a strong work ethic and entrepreneurial spirit, and are willing to engage in markets where profit margins are low (at least initially) and supply chains are weak. They take a long-term perspective on the value of markets, and hope to reap strategic advantage by entering at an early stage (in terms of profitability and size). For example, in describing their business strategy over the next three years, Chinese managers emphasized consolidation of their position in existing markets, increasing investment in these markets, and expanding into new markets. Thus they are more willing than many Western entrepreneurs to accept the uncertainties and risks of operating in an African environment in the interest of their long-term strategic position. Chinese managers emphasize the need for flexibility and adaptability to changes in the market, and the importance of seizing opportunities. This view of Chinese managers is corroborated by African perceptions; for example a senior Ghana Investment Promotion Centre officer commented: 'They [the Chinese] are hard-working, very adventurous and innovative."

Push Factors in the Domestic Chinese Economy

The survey responses also provided insight into the determinants of Chinese investment. Each corporate respondent was asked to indicate, and rank in order of importance, those factors that were decisive in its investment decision. The top five motives for investing identified by these firms were: (1) Access to local African market; (2) Intense competition in domestic Chinese markets; (3) Transfer abroad of excessive domestic production capability; (4) Entry into new foreign markets via exports from host; and (5) Taking advantage of African regional or international trade agreements (Figure 4). Motives that typically would be considered as important in foreign investment, such as access to raw materials and to diversify risks, were mentioned less frequently. One implication is that more intense competition in China, either owing to slower growth or rising wages, would accelerate the process of Chinese investment in Africa.

Figure 4: Reasons for investing in Africa



Source: China-Africa Project Survey

The survey results also emphasize Chinese managers' confidence in the African market, which is listed as the most important reason for investing in Africa. For example, Chinese investors in Nigeria noted that it was the second largest economy in sub-saharan Africa, and could also improve access to West Africa in general. A view widely shared among Chinese entrepreneurs in Nigeria is that: 'This part of Africa is like the 1980s and 1990s in China; it is full of commercial opportunities." Regarding the investment climate in Africa in general, Chinese investors have the saying: 'Despite the strong wind and wild waves, the deepwater still has fish to be found.'

Another important dimension that should be highlighted is the intention of SMEs in China to move 'upwards' from low value-added products towards middle-to-high value-added goods that

they believe have a sustainable demand in African and other markets. According to a Ministry of Commerce (MOC) spokesman, Yao Jian, many companies have shifted from labor-intensive sectors to technology-intensive industries, such as electric power, oil refining, telecommunications and metallurgy.

The enthusiasm for investing in Africa does not appear to have been dimmed by the global crisis. Surveys undertaken in early 2009 in Beijing indicate that entrepreneurs would continue to invest in, and trade more, with Africa. Chinese companies that have tended to invest more in the North would be looking to diversify their investments in the light of the current financial crisis. In fact, in our study, we found that Chinese companies exporting to Europe and America have adjusted rapidly to the slowdown in these markets by finding new markets, such as in Africa. Also, many Chinese private investors are now increasingly looking to Africa in sharp contrast to their dark outlook with respect to investment opportunities in China, and have expanded their target markets from the European Union and the United States to developing countries in Africa and Latin America. Chinese companies are also taking advantage of opportunities created by the financial crisis to increase mergers and acquisitions. Overall, many Chinese firms concur with Craig Bond, Chief Executive of South Africa Standard Bank China who notes that: “Now is the best time for Chinese firms to invest in Africa. Some developed countries have withdrawn their investment in Africa following the worsening global financial crisis. There are more opportunities for Chinese firms."

5. Conclusion

As a Chinese scholar puts it, “Relations with Africa are still the most important and reliable part of China’s foreign relations with developing countries” (Zhang, 2007). If there was anxiety in Africa that the global financial crisis might reduce China’s interest in the continent, Chinese President Hu Jintao provided some political reassurance during his visit in February 2009, as he committed to ‘fully and punctually implement measures agreed at the Beijing Summit of the Forum on China-Africa Cooperation, seek China-Africa pragmatic relations and promote the further development of our new strategic partnership’ (Ministry of Foreign Affairs, 2009). At the November 2009 FOCAC meeting China reaffirmed its commitment to maintain the level of ODA and investment flows to Africa in the wake of the financial crisis, and pledged $10 billion in concessional loans to Africa, as well as a loan of $1 billion for small-and medium-sized African businesses. As noted above, China also is providing substantial debt relief to 33 African countries (FOCAC 2009). China’s commitment to maintaining development assistance is

particularly welcome, as there is a risk that ODA flows might be reduced by traditional development partners due to the deterioration of their national budgets.

Also, in what it called "a major step for Sino-African co-operation", the China-Africa Development Fund (CADFund) opened its first representative office in Africa on 16th March 2010. According to the CEO of the fund, "The fund will boost economic development in Africa by encouraging investment by Chinese enterprises."

Finally, the growing importance of China should not mask the continuing importance of Africa's traditional development partners among the industrial countries, who still provide the lion's share of ODA and investment. Moreover, traditional development partners provide some forms of aid, such as general budget support, which are highly effective and efficient and are not provided by China or other emerging developing countries, underlining the complementarily of traditional development partners with emerging development partners such as China.

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