China and Financial Crisis- Implications for Low Income Countries

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Thank you very much. I think China's recent engagements with Africa have generally garnered very strong reactions. I think there are various kinds of motivations to explain these reactions, but I won't go into those here. I think if left unchecked the situation could get worse and squander the great the positive aspects of China's engagement with Africa and Africa's general promise.

There is a quite a lot of work that has been done on China's engagement with Africa. My work intends to examine China's aid architecture with a specific focus on Africa. First to explain why there are the mixed responses to China's involvement in Africa and second examine how to improve policy effectiveness

I'll just give a little background regarding China's foreign aid. First of all, the definition of aid in the Chinese context can be divided into three types. The first is traditional grant aid. The second kind is more interest free or concessionary loans. The third, and I think the most challenging part to define, is assistance for joint ventures or corporations that is provided through banks and other institutions. There have been some studies that have tried to find out how to examine this and I think there is not a consistent definition yet.

China's foreign aid program started in July 1950. By the end of 2006, China had provided aid to over 160 countries in Africa, Asia, Eastern Europe and Latin America, completed over 2000 infrastructure and turnkey projects, and sent out over 20,000 medical professionals to 65 different countries. By the end of 2007, China had provided concessionary loans to over 60 countries and written off debts at a total of over 16 Billion RMB for 44 countries. It is under negotiations for another round of debt cancellation. I think most of that has already been completed. The write off is about 60% of all debt obligations to China.

China's foreign aid can be divided into different phases. The first phase is from the mid 1950s to the mid 1970s. That period can be characterized as foreign aid serving foreign policy, particularly when considering the international environment of that time. The second phase runs from the late 1970s to the late 1990s. I regard that phase as a period of economic pragmatism. China began to reduce the relative scale of its aid but extended its range, so it was limited but more extensive. The third phase that stated in the late 1990s has been defined by international responsibility. There are indeed foreign policy objectives back in the picture, but there is also a sense that China is playing a role in the international development arena.

The key features of China's foreign aid to Africa-again this is only a preliminary assessment- begins with a set of stable principles based on China's own diplomatic experience since 1949. This includes equal treatment, respect for sovereignty, and non-interference. These basic principles have been very stable over the years. The second key feature of China's foreign aid is its practical orientation. China's aid has been very much project based. Aid has been focused on specific industries and sectors. This sector-based focus is somewhat different from western countries. The third key feature is that it is pretty much based on summit diplomacy. It is a way to instill confidence and set the tone of the relationships between China and African countries.

In regards to the trend of China's of economic engagement with Africa-and this is where I think people have different views-I think there is actually a lot of hype. Last year, I was able to do a bit of data analysis with the help of some research assistants. I am going to do some analysis of the data from 2 different angles. First is comparing how China's engagement with Africa relative to China's engagement with other regions differs. Second is to look at how Africa's engagement with other regions compares to its engagement with China.

The first is China's trade with various regions. As you can see in the graph, the yellow line is China's trade with the East Asia and Pacific region. Trade with the European Union is the green line and trade with the United States and Canada is the purple line. The blue and black lines represent Africa and Latin America. If you look at China's tremendous increase in trade, trade with Africa is not particularly significant.

Now let's look at Africa's trade with others. The blue line on top there is EU25, and then there is China down here. China's growth has been quite consistent and has recently overtaken the US, but it still much lower compared to the EU25. European countries remain the main trading partners with Africa.

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Also, I think that in terms of trade there is a lot of focus on oil investment in Africa. Again, here I am referring to a study done by somebody at the Brookings Institution in 2007. What she did was to analyze the commercial value of oil investment in Africa. So those are African national oil companies and then there is the Chinese oil company way down there. It is very minimal compared to other countries. Again, here is 2006 oil production by selected companies. As you can see, the Chinese oil companies CNEC and SINOPEC are way down there in terms of production.

Question: Can you please tell us the top two countries at the top of the graph?
The first is an African company; the second is Exxon Mobile, followed by Total, Shell Chevron and BO

(Xue Lan Continues With His Remarks)

Again, this graph is on the outward FDI from China to different regions during 2004 and 2005. As you can see, Africa can hardly be seen on the graph. The highest in 2004 is Asia. In 2005, highest outward FDI is toward Latin American.

This is China's official aid to developing countries from 1990 to 2006 in units of 100 Million RMB. Again, as you can see, Africa represents a relatively small proportion of aid.

Ok, I think that is enough in terms of looking at the data.

Now let's look at China's foreign aid architecture. Aid architecture is the set of rules and institutions governing aid flows to developing countries. China's guiding principles in this regard are the ones I mentioned earlier.

In term of the government agencies involved, The State Council is, of course, making decisions on the overall foreign aid budget, as well as providing oversight for aid programs. The implementation of these policies, however, occurs at the Ministry of Commerce level, particularly in the Department of Aid to Foreign Countries. They have over 100 staff members. But in terms of Africa, there are only 20 to 30 people. They are the lead agency in aid policy development and coordination, so you can imagine the kind of workload they have to deal with. Also, the Department of West Asian and African affairs plays an important advisory role. Also, there is the Bureau of International Economic Cooperation that plays an important role.

The Ministry of Foreign Affairs should, in theory, provide advice to MOFCOM on aid. They are also very active in preparing aid. The Ministry of Finance draws up the Foreign Aid budget in consultation with MOFCOM. The Ministry of Finance also plays a key role in working with international agencies, as it is a counterpart agency with the World Bank

There are other organizations such as the Ministries of Agriculture, Health, and Science and Technology and so on these are also providing various aid programs. Within the embassies there are also commercial consults offices. They play a very important role in determining needs and selecting projects. Another thing that is relatively new is that many provincial and local governments are making contacts with African countries and cities.

Ok, let me just move on.Basic principles of Chinese foreign aid have been based on China's own experience and have been consistent over time. Chinese aid has been characterized as being strong in party management but weak in policy coordination

I'll just mention briefly the new challenges facing China in regard to foreign aid. The first are the passive constraints in China as aid to Africa has been increasing so dramatically. The second is changing international policy, particularly in regard to the political situation of the receiving countries. There is a need to have better risk assessment in this regard. The third is that multiple stakeholders, particularly non-government players, are becoming increasingly important. Traditional summit diplomacy is facing some challenges. The last one is the changing landscape of the global aid market to Africa. Also, there are the competing policy objectives of the various aid projects. Also, the coordination of the multiple players that are involved in organizing aid for Africa in China

Anyway, let me get to the policy recommendations. Again, I am ahead of myself here.

There is still a lot of work that needs to be done. One recommendation is there is the need to create a working a committee on international aid at the State Council level to better coordinate policy. The second recommendation is to explore alternate channels to increase aid effectiveness. The third recommendation is to strengthen China's domestic research on Africa and broaden China's engagement with African society in general.

The last recommendation is to engage with international aid models to improve the understanding of differences in international aid models and to learn from international best practices.

Thank you very much.

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China and financial crisis: Implications for low income economies

中国与金融危机——对低收入经济体的影响

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March 20th 2009

Workshop: Introduction

Global challenges created by financial crisis :金融危机对全球引发的挑战：

- Economic: slower growth 经济：缓慢增长
- Longer term development: less investment
  长期性发展：减少投资
- Human development: Increase in poverty (est. 90 million: DFID) 人类发展：增加贫穷（DFID估计约900万）
- Also a ‘human crisis’ (Zoellick, World Bank)是一场人类灾难（世银行长Zoellick）

What should the international / development community do to reduce impacts and assist the poorest? 国际社会和发展机构应做些什么去减低这些影响和援助最贫困的人们／國家？

What do we need to know? 我们需要知道什么？

Key question关键问题

Will China's response to the crisis significantly affect growth or poverty in other low income economies, particularly in Africa?

中国对金融危机的回应会否对低收入经济体（尤其非洲）的增长和贫困带来重要影响？

DFID and other development agencies: what does this mean for development assistance for poverty reduction and achievement of Millennium Development Goals?

DFID及其它發展機構：金融危机对支持减贫工作及完成千年发展目标的发展援助意味著什么？

China…

- must be key part of ‘solution’ to global financial crisis and new institutional arrangements 是解决全球金融危机和建立新机制安排一个重要参与者
- already has a major impact on low income countries through different channels 已通过不同渠道对低收入国家带来重要的影响
- will emerge with increased influence in global fora and international institutions (such as G20) 在全球论坛和国际机构（例如G20）的影响力将不断提高
- will increase its relative presence and influence in the poorest countries esp. in Africa 在最贫困国家（尤其非洲）的地位及影响力将不断提高

So better dialogue and mutual understanding is needed among the global development community全球发展社会之间需要更有效的对话和了解

Workshop: Overview

- China’s relations with low income economies 中国与低收入经济体的关系
- Financial crisis: impacts and responses 金融危机：影响与回应
- China and Africa 中国与非洲
- What can we learn? What does this mean for development institutions?我们有什么领会？对发展机构又意味著什么？

China and low income countries

- China's economic and political influence in low income countries has increased in recent years 中国对低收入国家的经济和政治方面的影响力近年不断提高
- China's demand for commodities has helped stimulate growth in low income commodity rich countries 中国对商品的需求有助刺激商品资源丰富的低收入国家的经济增长
- Asian economies are increasingly integrated into a regional production system亚洲经济体正不断整合成一个区域生产体系
- China is becoming more significant as a development partner in much of Africa – but its role is still small relative to US and EU 中国渐渐成为大部份非洲国家的重要发展伙伴 - 但相对于美国和欧盟，中国在非洲的份额仍然很少

Channels of influence

- Trade 贸易
- FDI – inward (to China) and outward 境外投资－ 流入（到中国）和流出（到其它国家）
- Finance – capital flows, foreign reserves, exchange rates 金融 - 资金流向、外汇储备、汇率
- Development assistance (linked to trade and investment) 发展援助（连系著贸易和投资）
- Governance: Global, regional and local治理：全球、区域、本地
- Migration 移民
- Environmental impacts 环境影响

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Complementary or competitive?

Channels	Impacts	Nature of links
Trade	complementary	Imports of cheap consumer goods from China; exports of commodities to China
	competitive	Imports displace local producers
FDI	complementary	Inflows of FDI
	competitive	Competition for other FDI
Finance & Aid	complementary	Loans to government and private actors
	competitive	Low cost finance displaces local financial intermediaries
Global and local governance	complementary	
	competitive	
Migration		
Environment		

Direct and Indirect impacts

- Direct: 直接影响
  - Imports / exports 进口／出口
  - Investment, development assistance 投资、发展援助
  - New technologies 新技术
  - Policies : trade preferences 政策：贸易优惠
- Indirect: 间接影响
  - China’s growth and demand changes relative prices / terms of trade 中国的经济增长和需求改变相对价格/TOT
  - Possible currency impacts 对货币的潜在影响

Implications for different regions

- South East Asia 东南亚
  - Manufactured goods 制成品
  - Intermediate inputs 半制成材料
- Latin America 拉丁美洲
  - Commodities 商品
- Sub-Saharan Africa 非洲
  - Commodities 商品
  - Trade, investment, aid 贸易、投资、援助

Impact of financial crisis

- Impact of crisis on China 对中国的影响
  - Financial effects 金融的影响
  - Real economy effects 实体经济的影响
    - Export / fall in imports 减少进口／ 出口
    - Employment 就业
  - Currency impacts 货币的影响

China's response

- What does China need to do..中国需要做的…
  - To cope with domestic crisis; increase employment 妥善处理国内危机、增加就业
  - To maintain growth; stimulate domestic demand保持增长、刺激内需
  - To rebalance domestic economy 重新平衡/调整国内经济
  - To contribute to global economic solutions为解决全球经济危机献出一分力
- Challenge of balancing different objectives平衡各种目的的挑战

Implications for low income countries

- How do these affect other countries?如何影响其它国家？
  - Fall in demand for imports / inputs (Asia)减低对进口／原材料的需求（亚洲）
  - Fall in commodity prices: weakening terms of trade for commodity producers (Africa, Latin America)商品价钱下跌：使商品生产者的TOT变弱（非洲、拉丁美洲）
  - Reversal of labour cost increases in China? (Asia)中國的人力成本增加？（亚洲）
  - Investment / FDI 投资/海外投资
    - State - Continued strategic investment in energy / commodities 国家 – 继续在能源/商品方面的策略性投资
    - Private? 民营企业？
  - Development assistance: constant or increase 发展援助：不变或增加

Policy effects

- China's infrastructure investments help to maintain demand for raw materials and energy 中国基建投资有助保持对原材料和能源的需求
- China is taking advantage of investment opportunities overseas to secure long term strategic energy, mineral and food security 中国正利用海外投资机会去保障长期策略性能源、矿物和粮食安全
- China has reiterated its commitment to maintain aid to Africa中国一直重申对非洲保持提供援助的承诺

Some tentative conclusions

- China is still a relatively small player in Africa relative to EU/US: what happens in Africa will depend mainly on these countries 相对于美国/欧盟，中国在非洲所扮演的角色仍然很小
- China's relative importance will increase as China seeks investment opportunities and political relationships
  当中国积极寻找投资机会和政治关系同时，其相对重要性亦将会不断提高
- Both Chinese state and private actors are involved: African states need to recognise this 国企和民企都参与其中：非洲国家必须认同这个趋势

Some tentative conclusions

- The international development community needs to seek effective dialogue to understand China's strategic interests and motivations

  国际发展社会需要争取有效的对话去了解中国的策略性利益和动机
- A multi-lateral response is needed to create a 'development partnership' for longer term sustainable growth and poverty reduction in the poorest countries

  为了建立一个有助最贫困国家达到长期持续性发展和减贫的' 发展伙伴' ，一个多层面的回应是必要的。

Towards a new global order?

- China's emergence as key global actor in international governance institutions (G20)中国的崛起并成为国际治理机构（例如G20）的重要参与者
- China as partner of choice for low income / developing economies?中国是低收入/发展中国家的选择性伙伴？
- How will China adapt to new responsibilities in global system?中国将如何适应其在全球体系中要履行的新责任？
- What does this mean for other countries, OECD/DAC, development institutions..? 这对其他国家、OECD/DAC、发展机构等又意味著什么？

The Financial Crisis and China: What are the implications for low income countries?

Sarah Cook[1] and Wing Lam

OUTLINE:

1 Introduction

2 China's economic relationships with low income countries

3 China and the global financial crisis – impacts and responses

4 China's crisis: implications for low income countries

5 Conclusions

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1 Introduction

How the financial crisis affects China has implications that extend well beyond its domestic economy. As the world's third largest economy, albeit with a still low per capita GDP of around $2660, China's ability to maintain a reasonable level of growth and restructure its domestic economy will be important both for its internal development and stability, and for its contribution to renewed global growth and a rebalancing of the international economic structure. China must be a central player in implementing solutions to the current financial difficulties emanating from western countries, as well as in reshaping global governance institutions and arrangements that will inevitably emerge from this crisis.

What happens in China will thus have far reaching implications, for the west, as well as for many low income economies in Asia, Latin America and Africa, whose recent economic growth has to some degree been stimulated by China's demand for commodities and intermediate inputs, and its expanding overseas investments.

With the onset of financial crisis in the US, questions were initially raised about the extent to which China was 'decoupled' from the global economy, whether it would escape serious impact, and whether in fact China could 'bail out' the US and other developed capitalist economies. The speed with which the crisis passed through to the real economy quickly put an end to these speculations, but not to the recognition that China is critical to global recovery - through facilitating credit to badly hit economies, maintaining growth, stimulating demand and contributing to macro-economic re-balancing.

These wider questions about the Chinese economy and the financial crisis are beyond the scope of this paper. However, the initial debates point to the lack of consensus and divergent interpretations of many aspects of China's economic growth and its international economic integration. Such limited understanding is still more evident with respect to China's relationships with developing economies, many of which have seen their growth boosted in recent years by Chinese investment, resource demand and development assistance, but on which relatively little systematic empirical analysis exists.

The focus of the current paper is on this particular aspect of China's global economic influence – its relationships with low income economies, particularly in Africa. We ask how the effects of crisis on China's real economy, and the responses and measures taken by China to address the current situation, might impact on poor countries, and particularly on growth and poverty in these countries.

Given the speed of the economic downturn in China, following from rapid changes in the early years of the twenty first century, and combined with limited prior research, we can provide only a preliminary analysis of these questions. We start by reviewing the pre-crisis evidence of China's interactions with a range of emerging and less developed economies, including in Latin America and Asia, but with the major focus on Africa. We then summarise the emerging evidence about the impact of crisis in China, and China's policy responses. The subsequent section brings these two perspectives together to present a framework for assessing the possible impacts of crisis on low income countries, particularly in Africa, and reviews the limited empirical evidence to date. The final section presents conclusions and a discussion of implications, particularly those of relevance to members of the international development community concerned that efforts to foster sustainable growth, reduce poverty and achieve the Millennium Development Goals will be undermined by the crisis.

2 China's economic relationships with low income countries[2]

China's interactions with and impacts on developing countries have increased substantially in recent years, both as an inevitable by-product of China's growth and economic size, and as a

[2] The remainder of this paper focuses on low income countries where Chinese engagement is significant, including SE Asia and Latin America, but with a principal focus on Africa.

result of deliberate policy initiatives. High levels of sustained growth, its economic size, the resources at its disposal for investment, combined with the strong capacity of the state to direct resources in its longer term strategic interests (particularly concerning its own security in terms of food, energy and other commodities), have led to dramatic increases in both state and private investment in, and trade with, low income countries, to increases in development assistance and cooperation, and to closer political relationships. In 2001, for example, China launched a new 'Going Out' (*zou chu qu)* strategy aimed at strengthening trade relationships and encouraging domestic firms to invest abroad. This has involved picking 'corporate champions' to become China's multinational firms, with policies encouraging their overseas activities.[3] The early years of the twenty first century have seen a steady increase of registered Chinese companies operating overseas, with the numbers of private and unregistered firms likely to be much higher.[4] China's outbound investment has also risen: from US$2.855 billion in 2003 to US$16.13 billion in 2006. Although China's FDI remains relatively low (at 1.9% of total state investment in 2006), this was double the 2003 level.[5] Furthermore, at a global level, the early years of the twenty-first century have seen a commensurate rise in China's role and influence in the institutions of global governance and the production of global public goods - poverty reduction, climate change, trade and security, for example – with implications for many developing countries.

The ways in which China's growth influences or impacts on low income economies are multiple, vary across different regions and countries, and are as yet relatively poorly researched. Stimulated by concerns over who benefits or loses, and the potential challenge posed by China's rise to the global economic and political order, an emerging body of literature within international relations, global political economy and economics has started examining these relationships.[6] The impacts on specific countries are determined by both economic and political relationships and operate through direct and indirect channels. The key political conditionality is ending diplomatic recognition of Taiwan. The main direct channels of economic influence are trade, investment and (to a lesser extent but particularly in Africa) aid. Indirectly, China affects world prices of commodities and products, and thus the terms of trade for other low income producers; it potentially effects countries through its currency valuation. Impacts vary by region and among countries within any region, according to type of product, demand from China, and whether production complements or competes in the domestic or third country markets. The significance of these effects also depends on the diversification of the economy in question and the relative strength of a country's relationships with or dependence on other major economies.

Regional variation

East and south east Asia:

China's relationships with its more immediate Asian neighbours particularly in east and south east Asia deepened from the 1990s as China came to dominate export processing manufacturing, tying many neighbouring countries into regional production networks and supply chains. China's influence in the region grew in the context of the Asian Financial

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[3] In fact, as early as 1991, the State Economic and Trade Commission had selected a team of 120 'national champions' to further China's quest for greater engagement with the world economy. See Alden, C. (2007) China in Africa, Zed Books; Biggeri and Sanfilippo, 2009 'Understanding China's move into Africa: an empirical analysis' Journal of Chinese Economics and Business Studies Vol.7, No.1, February 2009 (31-54).
[4] According to official Ministry of Commerce data, the number increased from around 3,400 in 2003 to over 6,000 by 2006.
[5] UNCTAD World Investment Report 2007
[6] See for example publications arising from the 'Asian Drivers' programme, in IDS Bulletin 37.1 January 2006 and World Development Vol. 36, No. 2, 2008; Broadman, H. (2007) Africa's Silk Road The World Bank, and a growing literature on China and Africa.

Crisis of 1997-8 when its ability to maintain its exchange rate and stimulate its domestic economy helped the region recover from crisis.

While some countries in the region compete with China for markets for low cost manufactured products (e.g. in shoes and textiles), others benefit from China's market for intermediate production inputs – both in capital goods and in some cases natural resources and commodities. Prior to the current crisis, some of countries in south east as well as south Asia may also have been poised to benefit from China's rising labour costs and the possible transfer of industries in search of cheaper sources of labour. Other (particularly more developed) Asian economies have a complementary relationship with China as part of regional production networks, and reap benefits from inter-dependence on trade for example in high technology products. The more negative impacts of China's rise are however also felt among some close neighbours, particularly in relation to environmental issues, water use (in the Mekong Delta) and demand for non-renewable resources such as timber.

Latin America

As commodity producers, many countries in Latin America have benefited from improved terms of trade given China's expanding demand. Overall the implications are varied; according to Guillermo Perry of the World Bank, the rise of China (and India) is not a zero-sum game. China's economic growth opens a large export market for the LAC region; but others such as Mexico find export growth depressed by competition.[7]

Africa:

As noted above, the main direct channels of economic influence – particularly in Africa – are trade, investment and aid, all of which are closely related. While data remain patchy, the headline trends in the relationships over recent years are clear with significant increases in all three.

<u>Trade</u>: According to recent Customs data, in 2008 trade between China and Africa increased by 45% to $107 billion. Exports increased 54% but for the first time Africa has a trade surplus (of over $5 billion). China still lags the US and France as Africa's third leading trade partner, while regionally African trade with the EU is most significant. In Africa, Angola and South Africa are China's top two trading partners (see table 1).[8] China's main imports from Africa are oil and gas; Chinese exports to Africa include machinery, vehicles, textiles and manufactured products.

<u>Table 1: China's trade with selected African countries, 2007</u>

Country	**Trade with China 2007 (US$bn) [Exports to and Imports from China] (% change vs. 2006)**	**Trade with China 2008 (Jan to Oct) (US$bn)**	**Trade 2007 (US$bn) (% change vs. 2006)**	**Trade with China as a % of the total trade, 2007**	**Major exports**
Africa					
Angola	Exports: 12.89 (+17.89%) Imports: 1.23 (+37.40%)	Exports: 20.60 Imports: 2.33	Exports: 39 (+22.4%) Imports: 15.05 (+57%)	Exports: 33.05% Imports: 8.17%	Crude oil, diamonds, manufactures
South Africa	Exports: 6.61 (+61.77%) Imports: 7.43 (+28.78%)	Exports: 7.93 Imports: 7.27	Exports: 81.81 (+8.83%) Imports: 77.53 (+8.83%)	Exports: 8.08% Imports: 9.58%	Gold, coal mining, manufactures
Sudan	Exports: 4.13 (+112.6%) Imports: 1.48 (+5.18%)	Exports: 5.55 Imports: 1.56	Exports 8.9 (+53.14%) Imports: 7.72 (+8.68%)	Exports: 46.40% Imports: 19.12%	Oil, petroleum products, sesame, groundnuts, manufactures
Nigeria	Exports: 0.54	Exports: 0.48	Exports: 64.05	Exports: 0.84%	Fuel, liquefied,

[7] 陽敏'亞洲崛起中的中國角色', 協商論壇, Issue 5 (2007), 28-30.

[8] 'China-Africa trade up 45% in 2008 to $107 billion', China Daily, 11 February 2009, http://www.chinadaily.com.cn/china/2009-02/11/content_7467460.htm

	(+106.12%) Imports: 3.80 (32.91%)	Imports: 5.60	(+8.35%) Imports: 38.94 (+25.99%)	Imports: 9.76%	natural gas, manufactures
Zambia	Exports: 0.40 (+47.04%) Imports: 0.20 (+91.26%)	Exports: 0.5 Imports: 0.23	Exports: 4.26 (11.50%) Imports: 3.29 (+24.73%)	Exports: 9.39% Imports: 6.08%	Copper, Cobalt, Manufactures
Libya	Exports: 1.55 (-8.68%) Imports: 0.86 (+22.02%)	Exports: 2.55 Imports: 1.34	Exports: n.a. Imports: n.a.	Exports: n.a. Imports: n.a.	Crude oil
Congo	Exports: 2.83 (+1.43%) Imports 0.42 (+73.86%)	Exports: 3.40 Imports: 0.49	Exports: 5.04 (-21.14%) Imports 1.56 (+2.02%)	Exports: 56.15% Imports: 26.92%	Crude oil, wood, manufactures
Algeria	Exports: 1.14 (+692.20%) Imports: 2.69 (+38.11%)	Exports: 0.69 Imports: 3.07	Exports: 60.16 (+0.53%) Imports: 29.63 (+17.04%)	Exports: 1.89% Imports: 9.08%	Hydrocarbons, raw materials, semi-finished goods, Food, fuel and energy, capital goods

Source: World Investment Report 2008 – Country Fact sheet, UNCTAD; World Bank, Development Data, published September 24, 2008. http://www.devdata.worldbank.org; Ministry of Commerce of PRC.

Investment:

Although still accounting for only about 1% of worldwide FDI flows, China's FDI outflows overall and to Africa have grown rapidly. The total outflow for 2007 was US$26.51 billion, an increase of 25.3% over 2006 and a massive 828% increase over 2003. China's FDI outflows to Africa increased almost 5-fold in 2006-7 (from US$520m to US$1574m), compared to a 32.7% increase in 2005-6. They accounted for 5.94% of China's total outflows in 2007, compared to only 2.62% in 2003. Approximately 3% of China's FDI stocks are in Africa, compared to over 70% in Asia. For Africa, FDI from China constitutes a still small but rising share, growing from roughly 0.5% of total FDI to Africa in 2003 to 2.97% in 2007.

Table 2 shows FDI for selected African countries with strong economic ties with China. The top recipients in 2007 (with large increases) were South Africa, Nigeria, Algeria and Zambia. Niger (not included) also saw a significant increase to over US$100 million).

Table 2: Chinese FDI to select African countries, 2007

Country	**GDP 2007 (US$Bn) (% change vs. 2006)**	**Chinese FDI 2007 (US$mn)**	**Total FDI inflows (US$mn) (% change vs. 2006)**	**Chinese FDI as a % of total inflows**	**Chinese FDI as a % of GDP**
Africa		1574.31 (+202.83%)	52982 (+15.80%)	2.97%	
Angola	58.5 (+29.42%)	41.19 (+83.97%)	-1500	-	0.07%
South Africa	277.6 (+8.9%)	454.41 (+1015.39%)	5692	7.98%	0.16%
Sudan	46.2 (+26.9%)	65.4 (+28.77%)	2436 (-45.36%)	2.68%	0.14%
Nigeria	165.5 (+12.66%)	390.35 (+475.82%)	12454 (-10.76%)	3.13%	0.24%
Zambia	11.4 (+4.89%)	119.34 (+36.48%)	984 (+59.74%)	12.13%	1.05%
Libya	58.3 (+17.3%)	42.26*	2541 (+26.23%)	1.66%	0.07%
Congo	7.6 (-1.3%)	2.5 (-81.12%)	352 (2.33%)	0.71%	0.03%
Algeria	135.3 (+16.14%)	145.92 (+47.50%)	1665 (-7.24%)	8.76%	0.11%

Note: In 2006 Chinese FDI for Libya was a negative figure.
Source: World Investment Report 2008 – Country Fact sheet, UNCTAD; World Bank, Development Data, published September 24, 2008. http://www.devdata.worldbank.org; Ministry of Commerce of PRC.

In terms of private investment in Africa, the amount remains small overall but involves a large number of entrepreneurs. One estimate suggests that 88% of investors are responsible for approximately 5% of investment. This is growing rapidly albeit from a low base. However official statistics on private investors are extremely inaccurate. According to a government report, over 800 Chinese enterprises invest in Africa of which around 100 are state-owned.[9] This certainly underestimates private investors many times. The dominant sectors for FDI to Africa between 1979 and 2000 were manufacturing (textiles) and resource extraction, with telecommunications and construction also growing.[10]

Industry experts expect China's M&A activities in 2009 to be very active due to abundant liquidity, government support and a strong yuan. Africa and Latin America are likely to be the most-favoured region of China's M&A. In addition to the policy support envisaged in the stimulus plan, more government efforts have been urged to encourage overseas investment, especially in energy and mining. In the annual session of the CPPCC meeting in March 2009, a delegate submitted a proposal calling for the establishment of an investment fund to support Chinese private enterprises' overseas investment in energy and mining.[11] The China Development Bank (CDB) has also given a commitment to support Chinese private companies in overseas expansion.[12]

Aid: China's aid to Africa has increased significantly particularly from the mid-1990s, while remaining a small share of China's GDP. Chinese aid to Africa dates back to the 1950s, peaking in the 1970s. From the mid-1990s, as China's growth accelerated and its demand for natural resources increased, aid to Africa again rose sharply. By the late 1990s Africa had become the major recipient of Chinese development assistance, receiving almost half of the total.[13]

China's international cooperation with Africa continues to expand rapidly. While data is limited, there are various estimations of China's aid to Africa. According to one Chinese researcher, Chinese external aid and economic support reached US$1.8 million in 2002, and by May 2006, China's investment in external assistance projects in Africa was valued at US$5.7 billion.[14] In 2007-8, China signed bilateral aid accords with 48 African nations and loan agreements with 22. In spite of this rapid growth, Chinese aid to Africa remains small compared with traditional donors.

China's aid to Africa takes various approaches; its aid delivery system is complex and lacks a systemic framework in deciding, management and monitoring the aid.[15] One leading scholar, Martyn Davies, notes that, while China's interpretation of development assistance can be taken to correspond to the DAC definition, China's foreign aid policy has a wider and more ambiguous scope, making it hard to draw direct comparisons of Chinese and western aid.[16]

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[9] http://www.gov.cn/jrzg/2007-05/15/content_615583.htm
[10] Biggeri and Sanfilippo, *op.cit*, 2009
[11] 'Hu Chengchong: Fund to Help Private Enterprises Seeking Mining Investment Abroad [胡成中：设基金助民企出海找矿]', ifeng.com, March 5, 2009, http://finance.ifeng.com/money/roll/20090305/420843.shtml
[12] CDB to support overseas investment in resources', Xinhuanet, March 5, 2009, http://news.xinhuanet.com/english/2009-03/05/content_10951438.htm]
[13] 44% or $1.8 billion according to Brautigam (1998) cited in Alden (2007). See also Li Xiaoyun who provides a figure of 30% of the total over a longer time period. 'China's Foreign Aid and Aid to Africa: an overview', presented in DAC/POVNET Workshop on China's Experience of Poverty Reduction at Home and in Africa, February 21, 2008, Paris, OECD. Powerpoint presentation available http://www.oecd.org/dataoecd/27/7/40378067.pdf
[14] He, Wenping "China - Africa Relations Moving into an Era of Rapid Development, "in Bimonthly Newsletter of the Africa Institute of SouthAfrica, No. 3 /4, 2006, pp. 3 - 6.
[15] Davies, Martyn 'China's Foreign Aid Policy Toward Africa [中國對非洲的援助政策及評價]', World Economics and Politics [世界經濟與政治], No. 9 (2008), pp.38-44; and Diao Li, and He Fan, 'Some Reflections on China's External Development Assistance Strategy [中國的對外發展援助戰略反思]', Journal of Contemporary Asia-Pacific Studies [當代亞太], NO. 6 (2008), pp. 120-133.
[16] Davies, Martyn, et al, How China Delivers Development Assistance to Africa, Beijing: DFID, February 2008.

China's influence in the continent has prompted some western countries to find ways respond to this growing presence in Africa. The North South Corridor project, financed by DFID, for example, is a recent initiative reengaging western donors with infrastructure projects in Africa.[17]

For China, development assistance is valued for associated political relationships and economic opportunities, especially access to resources and markets for manufactured products. There is thus little reason why aid should decrease in the context of the crisis. On the contrary, China is more likely to take such an opportunity to increase its influence in the region and secure its own long term interests. Given high level political commitments to Africa and the forthcoming 2009 China-Africa Summit, China will almost certainly maintain or increase development assistance; as of February 2009, Chinese leaders have reiterated their commitments, announced new projects and assistance, and a reduction or relief of debt.

Key channels of influence and impacts – a summary

Table 3 draws on the existing literature to summarise the key variables influencing China's relationship with low income economies, and the possible impacts.

[See attached file: Table 3]

Poverty and distributional impacts of China's engagement with Africa

Clearly China's engagement in Africa has grown significantly following China's accession to the WTO. GDP growth in many countries has been stimulated by rising commodity prices, largely driven by China's demand. African economies have become less marginalised from the international economy and trading system, at least in part due to China's rise. Chinese investments in core infrastructure are also assumed to have direct growth effects, while the increasing number of small private entrepreneurs found across Africa may have a role in stimulating local markets and providing low cost consumer products to the poor.

There is however little systematic evidence on the poverty reducing or distributional impacts of China's engagement. While there may be many positive effects, there are also issues of concern. Several recurring issues can be noted:

- As seen from table 3, those countries which compete with China for manufactured goods such as textiles face greater competition in both their domestic and external markets, with factory closures and lost jobs.
- China's labour practices – whether through use of Chinese labour, or the poor conditions offered to local workers – have been a point of contention in many countries.
- While China's recent development assistance appears to focus more strongly on poverty reduction, social infrastructure and social sectors (particularly health and education), Chinese institutions still have limited capacity to implement and monitor these expenditures and their impacts, to ensure the intended social outcomes.
- In some cases such assistance and infrastructure projects are viewed as not having widespread social benefits (such as building National Stadium) or as primarily benefiting elites.
- China's relationship with regimes considered by the OECD development community to exhibit poor records of governance and human rights raises additional concerns among the wider development community.

[17] DFID, "North South Corridor" to improve trade routes across Africa, DFID Press Release, February 19, 2009, http://www.dfid.gov.uk/news/files/nsc.asp

Overall it is clear that China's development assistance is closely tied to state sponsored investment projects, while limited information is available to understand the multiple objectives of such assistance, or to assess its wider impacts, particularly its social and environmental impacts and contribution to poverty reduction.

3 China and the global financial crisis – impacts and responses

It is generally accepted that China's financial institutions are relatively well-insulated from the direct impacts of crisis, and that the level of exposure to toxic assets is manageable given the degree of state control over financial institutions and the available reserves. The need for economic readjustment of China's economy had already been recognised, and initial measures were being introduced to address housing and stock market 'bubbles', bring down inflation, boost domestic consumption and promote more equitable and sustainable growth.[18] In the early weeks of the crisis, researchers and policy makers viewed the country as well-situated to weather the crisis, with the major anticipated impact being through consumer confidence translating into reduced consumption.[19]

The speed with which the effects of crisis in the developed capitalist countries passed through to China's export-dependent economy was unanticipated and dramatic. Since October this has radically altered economic conditions and led to major policy shifts. The situation continues to move fast: as yet there is little evidence that the downturn is bottoming out. A positive sign was a huge increase in lending during January in response to the relaxation in November of lending restrictions, as banks vied for the best fiscal stimulus projects. However, trade figures released for January show both exports and imports continuing their rapid decline.

<u>Main impacts and responses</u>

<u>Financial Sector</u>

There are scattered reports of the losses of Chinese financial institutions. In November, Caijing magazine website listed key bank exposures.[20] Since the mid-1990s, bad loans or toxic assets have been placed in Asset Management Companies which has served to decrease high non-performing loan ratios, although the AMCs are themselves at risk of default.[21] China's poorly documented informal financial sector, on which many small and medium enterprises depend, may be vulnerable, but little information is available for assessing the significance of any risks.

<u>Fiscal revenues</u>

The Ministry of Finance (MOF) reported a 17.1% decline in China's fiscal revenue in January.[22] This results both from slowing economic growth affecting business profitability, as well as wide-ranging tax cuts introduced to boost the economy. Tax revenue for January 2009 dropped 16.7 percent yoy; duty revenues declined 19.3 percent while takings from stock stamp tax shrank 95.7 percent. MOF's preliminary statistics reported an overall increase in fiscal revenues to 6.13 trillion yuan for 2008, up 19.5 percent from 2007. In January 2009, however the Finance Minister hinted at the difficulty of balancing the budget amid the severe economic conditions arising from the financial crisis.[23]

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[18] Lan, X. (2008) 'xxx' <u>Voices from the South</u> IDS, Brighton. www.ids.ac.uk

[19] 'Experts: China little affected by US financial crisis', China.org.cn website, 19 September 2008, http://www.china.org.cn/business/news/2008-09/19/content_16504424.htm

[20] 'Financial Crisis: Impact on China', Caijing Website, 4 November 2008, http://english.caijing.com.cn/2008-11-04/110025848.html

[21] *details* Financial Times, February 19th, 2009

[22] 'China's January fiscal revenue down 17.1% as economic growth slows', Xinhuanet, 16 February 2009, http://news.xinhuanet.com/english/2009-02/16/content_10829314.htm

[23] 'China sees growing difficulty balancing budget amid "severe" conditions', Xinhuanet, 26 January 2009, http://news.xinhuanet.com/english/2009-01/26/content_10721713.htm

Trade:

China's heavily export dependent economy has seen a rapid decline of both imports and exports since November, which shows little sign of slowing.

Table 4: Imports and Exports September 2008 – January 2009

	% year-on-year		% change on previous month	
	Imports	Exports	Imports	Exports
September 2008	21.5	21.4	0.84	1.16
October 2008	15.4	19	-13.06	-5.94
November 2008	-18	-2.2	-19.54	-10.4
December 2008	-21.3	-2.8	-3.63	-3.33
January 2009	-43.1	-17.5	-28.87	-18.63

Source: China Customs.

Note the January y-o-y figure may be exacerbated by the New Year holiday in January. [24]

Enterprise and employment

The most dramatic real economy effects are on company closures and lost jobs. Widespread company closures and bankruptcy has spread, hitting small and medium enterprises in export production supply chains in southern China particularly hard. In December statements by officials reported that around 670,000 small firms had closed in 2008 with about 6.7 million jobs lost, many in the export hub of Guangdong. [25] In January, the Ministry of Human Resources and Social Security (MHR) 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 per cent (or 8.86 million).[26]

According to a CASS survey conducted in late 2008, including migrants would but the unemployment rate over 9.4 per cent. [27] A Ministry of Human Resources survey in late December 2008 found 4.85 million jobless migrant workers had returned to their hometowns by the end of November, with over 10 million migrants out of work nationwide. By January the accepted figure had risen to 20 million with 6-7 million new workers expected to enter the migrant labour force during the year.[28] Unemployment among new graduates is also a major concern, with an estimated 12 percent (1.5 million) jobless at the end of 2008, and 6.1 million expected to enter the job market in 2009.[29] Many more workers in the 'informal economy', without contracts or social protection, and excluded from official statistics, are also threatened by loss of livelihoods.[30]

What does this mean for growth?

Growth forecasts have been revised downwards possibly to as low as 6% for the coming year, down from 11.7% in 2007, and around 10% for 2008. There is however little agreement among economists on the depth of the downturn. In December, expectations of around 8%

[24] January y-o-y decline of 32.6%, in part explained by early Chinese New Year holiday. China Daily Eclips 17/2/2009

[25] Tan Yingzi, 'Jobseekers frustrated as employment worsens', *China Daily*, Dec 20, 2008, http://www.chinadaily.com.cn/china/2008-12/20/content_7325070.htm

[26] '560,000 mainland jobs axed in 3 months', SCMP, January 20, 2009, http://www.scmp.com/portal/site/SCMP/menuitem.2af62ecb329d3d7733492d9253a0a0a0/?vgnextoid=efd6e070a13fe110VgnVCM100000360a0a0aRCRD&ss=China&s=News

[27] Jane Cai, 'Urban jobless rate may touch 30-year high', *SCMP*, January 21, 2009, http://www.scmp.com/portal/site/SCMP/menuitem.2af62ecb329d3d7733492d9253a0a0a0/?vgnextoid=b3975168c34fe110VgnVCM100000360a0a0aRCRD&ss=China&s=News

[28] Central Work Leading Group Feb 3 http://www.financialpost.com/story.html?id=1244709

[29] Tan Yingzi, 'Jobseekers frustrated as employment worsens', *China Daily*, Dec 20, 2008, http://www.chinadaily.com.cn/china/2008-12/20/content_7325070.htm

[30] '全國上半年近 7 萬企業倒閉 考驗政府就業政策', Sina News, Nov 2, 2008, http://chinanews.sina.com/news/2008/1102/06413034795.html

were still common, with the World Bank predicting 7.5% and the IMF around 6.5%. Sobering figures in January have led to downward revisions. Estimates by economists across 14 financial institutions range between 5% and 8%, while the lowest estimate for Q1 is only 3%.[31]

In a report by a government think-tank, the Chinese Academy of Sciences (CAS) published in January, the authors predict slower growth in the first half but picking up with the stimulus package to an annual rate of 8.3%.[32] The report also estimates that the primary, secondary and tertiary industries will expand at 5 percent, 9.8 percent and 9.5 percent, respectively. The growth rate of exports and imports is expected to drop to 6.5 percent and 4.6 percent respectively. The authors expect that the stimulus package will help China to an early recovery in the third quarter.[33]

The government's stated aim – reiterated by the Premier Wen Jiabao at the recent National People's Congress opening – remains to 'guarantee 8%' growth in 2009. This is the minimum level of growth widely believed necessary to secure an acceptable level of employment and avoid social disruption. Under current circumstances, the prospects of this at least in the first two quarters, and probably beyond, seem slim.

Government response to crisis

China has responded to the slowing down of its economy and the impacts of the crisis with more expansionary macro-economic policies and a massive fiscal stimulus package. Among the policies rapidly introduced to limit the depth and cushion the impacts of economic slow down, interest rates were successively cut (five times in four months from mid-September, by 2.16%[34]); credit controls relaxed and reserve ratios reduced; taxes cut;[35] rebates provided to exporters; funds set up to pay wages owed to laid-off workers in bankrupt enterprises and a number of initiatives introduced to assist laid-off migrant workers and unemployed college leavers.[36]

Given the negative impacts on China's export trade, the government raised tax rebates for certain exports to help producers cope with smaller profit margins as a result of slacking market demand, the yuan's appreciation and rising production costs. The adjustment involves 3,486 items from labour-intensive industries such as textile, garment, toy, hi-tech and high added value sectors like anti-AIDS drugs and tempered glass. These items account for 25.8 percent of those covered by the country's Customs Tariffs.[37]

In an effort to achieve the 8% 'minimum' growth that the Central Government considers necessary to maintain employment and social stability, as well as to stimulate domestic demand, the central government has introduced a $586 (£380) billion fiscal stimulus package over 2 years, to be supplemented by increased local government funding and with the likelihood of further initiatives to come.[38] The government estimates that the package will drive economic growth up by one percent each year.[39] According to World Bank estimates,

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[31] Kevin Hamlin, 'China's Economy Shows Signs of Recovery on Stimulus', Bloomberg, February 13, 2009, http://www.bloomberg.com/apps/news?pid=20601109&sid=ackHHxtWoFHc&refer=exclusive
[32] '2009 GDP growth to hit 8.3%: think tank', Xinhuanet, January 19, 2009, http://www.china.org.cn/business/news/2009-01/19/content_17153297.htm
[33] (ibid)
[34] 'Interest rates cut again to spur growth', China Daily, 23 December 2008, http://www.chinadaily.com.cn/bizchina/2008-12/23/content_7330060.htm
[35] http://www.chinadaily.com.cn/bizchina/2008-10/09/content_7089886.htm
[36] These policy initiatives have been reported in the press. See also Xue Lan 'Voices from the South'.
[37] http://www.chinadaily.com.cn/china/2008-10/21/content_7126456.htm
[38] 'China's 4 trillion yuan stimulus to boost economy, domestic demand', Xinhuanet, November 9, 2008, http://news.xinhuanet.com/english/2008-11/09/content_10331324.htm
[39] '"4-trillion yuan stimulus package allows no redundant construction," NDRC chairman', People's Daily, 28 November 2008, http://english.peopledaily.com.cn/90001/90780/91344/6542737.html

over half the projected 2009 growth of 7.5% will come from government influenced spending.[40]

The main content of the government's plan to stimulate growth and domestic demand includes spending on infrastructure, particularly in areas that affect people's livelihoods (housing, rural infrastructure and social sectors), and industry-specific support for industrial growth and upgrading. The package focuses on ten areas, including low-income housing, rural infrastructure, transportation, health and education, environment, industry, disaster rebuilding, taxes and finance. The first tranche of 100 billion yuan was allocated in 4th quarter 2008, with the second 130 billion planned for February 2009; the remainder will be disbursed over two years to 2010.

In addition, a comprehensive reform of value-added taxes would cut industry costs by 120 billion yuan. Commercial banks' credit ceilings will also be abolished to channel more lending to priority projects, rural areas, smaller enterprises, technical innovation and industrial rationalization through mergers and acquisitions.

In late November, the government extended a subsidy program for rural households to purchase household appliances following the success of a pilot in October. The program contributed to a 30% year-on-year increase in sales of household appliances.

The government has also introduced sector-specific stimulus packages to boost industrial growth and domestic consumption, for example:

- for the auto industry: a reduction in purchase taxes and subsidies to farmers to replace outdated vehicles;[41] 10 billion yuan to upgrading automakers' technology and developing alternative energy vehicles.[42]
- for textiles: increasing the tax rebate for textile and garment exports by 1% to 15 percent from February 1, 2009; allocation of funding to companies to upgrade technology and develop domestic brands.

Further sector-specific plans are likely to be introduced, including for the property sector and a 500 billion yuan package for the petrochemical industry.[43]

Local governments have also introduced measures to spur growth and employment locally. In Zhejiang, the government has slashed 152 items of administrative fees and issued policy stimulus packages for the manufacturing and export sectors.[44] Several local governments issued coupons to low-income families during the Spring Festival holiday: for example Hangzhou and Chengdu issued coupons valued at 1000 million yuan (US$146.3 million) and 37.91 million yuan respectively for locally registered low-income families before the Chinese New Year holiday as a way to boost local consumption. A number of initiatives to promote employment creation and entrepreneurship, including establishing rural retail chains, incentives for self-employment and training for migrant workers, are also in place or under discussion.

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[40] World Bank Quarterly Update December 2008
[41] 'Analysts: China may have surpassed U.S. in Jan. auto sales', Xinhuanet, 6 February 2009, http://news.xinhuanet.com/english/2009-02/06/content_10771783.htm
[42] Patti Waldmeirin , 'Government stimulus gives China car sales surprise boost', Financial Times, 10 February 2009, http://www.ft.com/cms/s/0/13f134de-f7b1-11dd-a284-000077b07658,dwp_uuid=9c33700c-4c86-11da-89df-0000779e2340.html
[43] 'China mulls on stimulus package for petrochemical industry', Xinhuanet, 22 January 2009, http://news.xinhuanet.com/english/2009-01/22/content_10700468.htm; and 'Industry insider: plan to boost China's real estate sector ready for gov't approval', Xinhuanet 11 Feb 2009, http://news.xinhuanet.com/english/2009-02/11/content_10799817.htm
[44] 'No payroll cut despite business slumps, vows 200 Chinese firms in E China,' Xinhuanet, 28 January 2009, http://news.xinhuanet.com/english/2009-01/28/content_10730399.htm

As of early March, it is clear that the downturn is showing little sign of bottoming out. Although some signs of optimism are being noted, and the leadership has reiterated its 8% growth target for 2009, the challenges are enormous. In particular, China has to balance the immediate objective of growth and employment, in order to avoid serious social disruption at home, with the fundamental need to reorient its economy by reducing its export dependence and promoting domestic demand. The latter is critical not only for China but for global recovery and macro-economic adjustment, but in the short term will result in significant policy trade-offs that the government will have to manage.

4 China's crisis: implications for low income countries

How will the impact of the economic downturn, together with the policy responses taken by China, feed through into its interactions with low income economies, particularly in Africa?

It is important first to note that China is only one, and still a relatively small albeit growing, influence on Africa's economic growth and development. Much of the impact on Africa of China's rise has been indirect – through changing commodity prices and improving terms of trade. Similarly, most of the impact of the downturn will be through these economic effects.

More directly, China's downturn could directly impact those economies where poverty is high, but where Chinese investment, resource demand and development assistance have significantly boosted growth in recent years. At the same time, China's policy measures, particularly the infrastructure oriented stimulus package, combined with China's long terms interests to secure energy and food resources, and its financial capacity to pursue these objectives, suggest that China can play an important role in cushioning the impact of global recession for some low income economies.

Based on the key variables and channels of influence discussed in section 2, we present hypotheses about the possible impacts of China's crisis for developing economies.

<u>Hypotheses</u>

<u>Trade</u>

- China's domestic stimulus package with its focus on infrastructure should stimulate demand for commodities from countries in Africa and Latin America at a time of otherwise falling global demand and deteriorating terms of trade.
- However, given falling prices and weak demand elsewhere, these countries will be in a weaker bargaining position in negotiating deals
- Those countries providing intermediate products for China's export manufacturing will see a decline in demand
- Those countries competing for third country markets will also see a fall in market demand

<u>State investment</u>

- China will exercise caution in investments in the financial sector where it is unable to assess complex risks
- China will seek opportunities created by the crisis to increase mergers and acquisitions especially in the energy sector or areas of importance for China's long term food and energy security and growth.
- China may seek to renegotiate existing deals in the light of falling commodity prices

<u>Private investment</u>

- Small entrepreneurs with accumulated savings may seek new opportunities in less exploited African markets. This in part depends on whether opportunities in an already competitive Chinese market are further restricted, as well as the extent to which the downturn limits growth and investment opportunities in countries in Africa.

Aid

- China will maintain and possibly increase its development assistance to Africa

Other potential factors

- China will resist rising protectionist policies in the west; any increase in protectionism will however affect low income economies hard.
- China's currency is likely to continue a gradual appreciation. How countries are affected will depend on their relationship with China: goods imported from China will become more expensive.

Which countries are at risk?

A number of frameworks have been assembled for identifying 'at risk' countries.[45] In general, although largely shielded from the financial crisis, low-income African economies are at risk from the economic downturn associated with crisis. The IMF for example has estimated that a decline in world growth of one percentage point would lead to a 0.5 percentage point drop in Africa's GDP.[46] Many of Africa's economies are vulnerable because:

- their main economic partners are the US and EU whose economies are directly affected by crisis
- some are heavily dependent on income from remittances and tourism which will be affected by the downturn
- a heavy dependence on resource exports means that they are hit hard by the decline in global trade[47]
- commodity producers face declining terms of trade
- some have high current account or budget deficits
- some have a high dependence on western aid which may also be threatened.

China: Increasing or reducing risk?

Economic effects: The economic effects of China's downturn will be felt by countries depending on their own economic structure. These include in particular:

- falling commodity prices and weakening terms of trade for commodity producers (Africa, Latin America);
- a reversal of the recent rise in China's labour costs (Asia)
- weaker demand from China for manufactured inputs (Asia)

China's emergence as a major trading partner of Africa will contribute to the economic downturn affecting certain economies, but is generally less important than their trade with other regions, while China has negligible impacts in terms of remittances and tourism.[48]

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[45] See for example DFID's vulnerability analysis and Dirk Willem te Velde, 'The Global Financial Crisis and Developing Countries', Background Note, October 2008, London: ODI.

[46] IMF World Economic Outlook, April 2008

[47] 'China marches on in Africa despite downturn', Reuters, January 28, 2009, http://www.reuters.com/article/companyNewsAndPR/idUSLM43673820090128?pageNumber=3&virtualBrandChannel=0

[48] Biacuana , Gilberto, 'China-Africa trade and the global financial crisis', South African Institute of International Affairs, 17 November 2008, http://www.saiia.org.za/index.php?option=com_content&view=article&id=867:china-africa-trade-and-the-global-financial-crisis&catid=78:diplomatic-pouch&Itemid=230

Policy effects:

- China's infrastructure investments as part of its fiscal stimulus package will help to maintain demand for raw materials and energy
- China is taking advantage of economic downturn to seek investment opportunities overseas that help to secure its long term strategic energy, mineral and food security
- China has reiterated its commitment to maintain aid to Africa

Evidence

The evidence of impacts to date is inevitably largely anecdotal. Huge uncertainty remains about the likely depth of the downturn, and the impact of China's stimulus package.

- global trade has fallen overall
- demand for some inputs from China (e.g cobalt) has collapsed, leading to halting of production and loss of jobs e.g. in DRC
- Chinese state companies are pushing ahead with strategic energy sector investments and infrastructure projects, for example, stakes in Rio Tinto and OZ Minerals Ltd.[49]
- Private companies such as the Shenzhen based company Huawei Technology are continuing to expand in technology areas in Africa.[50]
- During early 2009 visits of government leaders to Africa, China has committed to further aid and development cooperation

The following box summarises some recent deals between China and African countries.

Congo

A marketing director at a private firm in Zhejiang, which supplies cobalt and nickel compounds for use in mobile phone batteries, was quoted as saying that most Chinese-invested firms had shut down their operations in Congo. They were not expected to resume production soon because of worsening economic conditions and falling prices. Congo's franc fell and foreign reserves dropped to a 5-year low.

A widely reported $9 billion package of Chinese loans, investment and infrastructure projects in return for Congolese minerals contracts may be cut back to $6 billion, partly to appease the IMF which has expressed voiced concern at Congo taking on such huge debts.

Angola

Trade with Angola, China's biggest source of African crude oil, reached $25.3 billion in 2007 and Beijing has offered Luanda $5 billion in oil-backed loans.

Zambia

The second copper smelter was reported to be opened in January 2009 as part of the controversial Chambishi development. A second economic zone was also launched where Chinese firms will assemble electrical goods such as TVs and cellphones for export. According to one Chinese researcher, China is unlikely to reduce its investment in the mining sector in Zambia, despite the crisis and economic downturn. Zambian state media reported that Chinese and Indian firms have expressed interest in taking over Zambia's top cobalt

[49] 'Energy: Minmetals to buy OZ Minerals', China Daily, February 17, 2009, http://www.chinadaily.com.cn/bizchina/2009-02/17/content_7483508.htm]
[50] 'China marches on in Africa despite downturn', Reuters, January 28, 2009, http://www.reuters.com/article/companyNewsAndPR/idUSLM43673820090128?pageNumber=3&virtualBrandChannel=0

producer Luanshya Copper Mines since it halted operations in December.

Senegal

In February, China signed a loan and aid deal with Senegal worth $90 million US, involving a purchase by China of 10,000 tonnes of Senegalese groundnut oil.[51]

Guinea

Talks between the world's top exporter of bauxite aluminium ore over a multi-billion-dollar deal with China to build hydropower dams, roads and bridges in return for mines have slowed as the economic climate has worsened, but also hampered by Guinea's political instability.

Source: 'China marches on in Africa despite downturn', Reuters, January 28, 2009, http://www.reuters.com/article/companyNewsAndPR/idUSLM43673820090128?pageNumber=3&virtualBrandChannel=0

The implications

The evidence suggests that China, as anticipated, continues to seek economic opportunities in its own long term interests, and presents these as a win-win situation for Africa in the current economic climate. Both China and Africa are likely to seek to fill any vacuum arising from a decline in trade, investment and aid from western economies. China in particular will view this as a strategic opportunity to expand its presence, and reduce the costs of its engagement in Africa and its access to raw materials.

For Africa, while providing short term advantage, the wider environment may also reduce their negotiating power with China. Depending on the terms and conditions of specific deals, and the prices of commodities, the outcomes may be more or less advantageous to these countries, and may have different implications for their own development strategies in the longer term.

There are risks associated with China's investments across the continent: as noted in section 2, they have provoked criticism and in some cases protest over labour standards and conditions, and unfair competition. Aid is tied closely to major investment projects; there is little systematic monitoring of the social and environmental impacts; and issues related to human rights and governance are ignored on the principle of non-interference. These conditions mean that the poverty reducing impacts are hard to ascertain, and are likely not to be as significant as they otherwise might be.

The major challenge will be to ensure that African countries benefit from this relationship despite a weak bargaining position at a time of deteriorating terms of trade; and that the opportunity for China to 'buy cheap' is not at the longer term expense of Africa's sustainable development and poverty reduction.

[51] 'China Signs $90 mln Senegal Deals, buy peanut oil', Reuters, February 14, 2009, http://www.reuters.com/article/marketsNews/idUSLE48126520090214?rpc=77]

5 Conclusions

Overall, the financial crisis is likely to increase the relative importance of China's economic relationships in Africa both in the short and longer term. This significance of this change will depend not only on changes in China's policies, investment, trade or demand with respect to low income countries but also on the changes between these countries and their other key development and trade partners. How African countries fare in the short run will depend at least as much on what happens in the US and Europe.

The significance of China's impact on specific countries will vary by the size and nature of its economic relationship with China, and the net effect of changing price and demand for their commodities. While African economies are vulnerable, in many cases the impacts of crisis may be buffered to some extent by China's immediate demands for resources and its long term interests. This may help slow down the decline in growth rates, but it is harder to make any meaningful predictions about the likely poverty impacts.

The potential shift in relative importance of China relative to other regions may have important implications for reshaping economic cooperation and development assistance for the longer term, and for the relative role of China and the west in low income countries, particularly in Africa. If China can steer its own economy through crisis, it may appear as a steadying factor in trade and investment compared to the west, and may become a development partner of choice with increasing 'Soft Power' influence in the developing world.

What does this mean for Africa and the international development community?

- African countries should recognise that they are dealing with both Chinese state and private sectors. Private entrepreneurs are transferring part of their value chain to Africa, providing Africa with an opportunity to push up the value chain. These developments require, a multifaceted African response involving government, the private sector, unions and NGOs.
- The commitment of western countries to continued trade, investment and development assistance to Africa may play a role in strengthening the bargaining power of these countries, enabling them to ensure better deals for Africa and to monitor the impacts of Chinese investment and assistance, and in particular the poverty reduction and distributional impacts.
- The development community should take this opportunity to understand China's strategic interests and motivations in order to enhance collaboration in the goals of renewed but sustainable growth, poverty reduction and achievement of the MDGs.
- The trans-national dimension of the financial crisis requires a multilateral response. The development community should develop a common framework for a "global development partnership" creating a network for bilateral/trilateral/multilateral dialogue and cooperation at various levels.

The crisis provides an opportunity for China, alongside other emerging economies, to play a greater role in reshaping international governance institutions. The reconstituting of the international governance architecture which will inevitably emerge from the current crisis will consolidate China's role and influence, while also bringing with it further responsibilities within the international community.

Table: Framework for analysing impacts: Summary of key literature

Key variables/ factors of influence	Impact	Countries affected (egs)	Sources / empirical analysis
Growth in DC exports to China	Complementary		**Rhys and Edwards (2004)** Asian Drivers – IDS Bulletin, WD etc
DC exports to 3rd markets	Competitive (esp. labour intensive products)	Mexico, Honduras; Bangladesh, Pakistan; Cambodia, Indonesia, Vietnam; Ethiopia	
China exports to DCs	Competitive – displacement Poor may benefit	Bangladesh, Cambodia, Bolivia Brazil, Honduras, Mexico, Cameroon, Ethiopia, Mozambique, Nigeria, Uganda, South Africa	
FDI	Competitive /complementary	Increased Chinese FDI to Africa	
Indirect: Price effects / TOT	Positive for commodity producers	SSA / LA	
China's move up product cycle	Competitive	East Asia – Taiwan, S. Korea, Japan	**Stallings (2007)** Overall benefits of economic integration in region and development of production networks, larger internal markets, economies of scale.
Demand for capital / intermediate inputs	Complementary	South east Asia	
Growth in export production	Competitive	South east Asia	
Nature of products:			
Resource exporters	Positive but concerns over low quality labour conditions for resource extraction	Australia, Brazil Peru Chile Angola, Congo	
Manufactured goods – components into production	Positive	Singapore	**Eichengreen and Tong (2006)**
Manufactured goods – consumer (eg shoes, textiles)	Negative / crowding out But benefit from rising value of RMB and increase Chinese labour costs	Bangladesh, Pakistan, Vietnam	
FDI – Indirect 'China effect'	No FDI diversion from LA except Mexico Complementary effects of flows for regional production networks	LA / Mexico South east / East Asia	**Chantasasawat et al. (2004)**

Indirect - price effects: Commodity prices Terms of Trade – impact of China as function of 5 key variables (Zafar): • % of oil/metal in exports • % textiles in trade • relationship between world S/D for commodity • dependence on imported oil • % increase in world demand for commodity accounted for by China	Positive but concerns of 'Dutch Disease' Widening differentials between oil rich/poor countries	Africa (oil / mineral producers) Benefit: Angola (mineral + oil exporter) Ambiguous: Botswana, CAR (mineral rich/oil importer)	**Zafar (2007)** **(also OECD – Goldstein et al. (2006))**

China and the financial crisis: Implications for low income countries

Sarah Cook and Jing Gu

China and the financial crisis
How the financial crisis affects China has implications that extend well beyond its domestic economy. As the world's third largest economy, China's ability to maintain growth and restructure its domestic economy is critical for addressing global macro-economic imbalances. It will also affect many low income economies whose recent growth has in part been stimulated by China's demand for commodities and intermediate inputs, and its expanding overseas investments.

China's financial institutions are relatively well-insulated from the direct impacts of crisis. Its export-dependence has however resulted in a sharp downturn in the real economy. The government has responded with an extensive package of measures aimed at stimulating the economy, raising domestic demand and maintaining stability. The situation is moving fast: as yet there is no evidence that the downturn is bottoming out. Given the continued decline in both exports and imports, growth rates for 2009 continue to be revised downwards, possibly to as low as 6%.

Implications for low income economies
China affects other low income economies both indirectly and directly. Indirectly, the increased price of commodities in response to China's demand has benefited many low income economies in Latin America and Sub-Saharan Africa. A fall in demand from China, contributing to collapsing commodity prices, will negatively affect these countries. Those countries which compete on low cost manufactured products, particularly in parts of Asia, have seen prices fall and competition intensify prior to the crisis.

The main direct channels of economic influence are trade, investment and, to a lesser extent, aid, all of which have increased significantly in recent years. These are closely related and, particularly in the case of Africa, reflect China's political and strategic interests as well as long term economic objectives. It is therefore unlikely that in these three areas there will be any significant downturn in China's direct engagement with Africa, at least in the short to medium term.

Trade: China's inelastic demand for natural resources, combined with a heavily infrastructure focused stimulus package, should maintain demand for key commodities such as oil, cotton, and copper at a time of otherwise falling global demand and deteriorating terms of trade. By contrast, those countries providing intermediate products for China's export manufacturing (particularly in south east Asia) will see demand fall.

In terms of trade with Africa, in 2008 total trade increased by 45% to $107 billion, exceeding the $100 billion target set in 2006 when trade was $55 billion, and giving Africa a trade surplus for the first time. Given this growth, China's exports to Africa may slow, but African demand for light industrial and consumer products is unlikely to be seriously affected. Potential problems of the increase value of China's currency should be offset by a corresponding drop in the price of Chinese imports. So two way trade in the next two years will probably continue to increase but at a slower rate than over the past two years.

Investment There is little reason to expect significant reduction in China's public and private investments in Africa. State enterprises are clearly taking advantage of opportunities created by the crisis to increase investments especially in the energy sector. New deals are being made, and Chinese analysts in Africa are seeking investments in commodities that are important for China's long term food and energy security and growth.

Private sector investment in Africa is driven primarily by competition between firms in China's domestic market. Intensification of competition during a downturn may accelerate investment in Africa. Furthermore, Chinese companies exporting to Europe and America have to adjust to falling demand by seeking new markets: already Africa has been called the "Best refuge for sunstroke prevention from the Financial Crisis". In a new trend, entrepreneurs also state their intention to move from low towards middle-to-high value-added products that they believe have a sustainable demand in African and other markets.

Aid: Aid flows to Africa will remain stable or even increase. China has reiterated its FOCAC summit commitments, and during his recent visit to Africa President Hu Jintao announced increased assistance and a reduction or cancellation of debts. Furthermore, Chinese aid is provided on a multi-annual line of credit of at least three years. While aid has increased significantly and may be important to some African countries, it remains small as a share of China's GDP. It is valued for associated political relationships and economic opportunities. China is therefore likely to take this chance to increase its influence in the region and secure its long term interests.

Key messages

Ultimately, how African countries fare will be determined more by relations with their main trading partners – the US and Europe. While benefiting from their relationship with China, most countries remain more dependent on other sources of income, including remittance flows, tourism and OECD development assistance. China's continued trade, investment and aid, may however act as a buffer for some economies during the downturn. However, several key messages can be highlighted:

- If China can steer its own economy through crisis, it may become a development partner of choice with increasing 'Soft Power' influence in the developing world. It may appear as a steadying factor in trade and investment compared to the west.

- The nature of Chinese-African relationships are such that aid, trade and investment are likely to increase in significance. The challenge is to ensure that African people benefit and that the opportunity for China to 'buy cheap' is not at the longer term expense of sustainable development and poverty reduction.

- African countries need to recognise that they are dealing with both Chinese state and private sectors. Private entrepreneurs are transferring part of their value chain to Africa, providing Africa with an opportunity to push up the value chain. These developments are largely insulated from the financial crisis, and may be accelerated by it. They require, a multifaceted African response involving government, the private sector and unions.

- The development community should take this opportunity to understand China's strategic interests and motivations in order to enhance collaboration in the goals of renewed but sustainable growth, poverty reduction and achievement of the MDGs.

- The trans-national dimension of the financial crisis requires a multilateral response. The development community should develop a common framework for a "global development partnership" creating a network for bilateral/trilateral/multilateral dialogue and cooperation at various levels.

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Institute of Development Studies

What the global financial crisis means for Chinese business and Africa?

Jing Gu

Outline:

- Background
- China’s continued public and private commitment to Africa?
- Key points

Institute of Development Studies

Background

The world is changing.

Beyond the immediate consequences of the global financial crisis, a major shift is underway in power towards the developing world and emerging economies.

Analysis is needed to capture the dynamics of change.

"A financial crisis is the most likely way in which the existing world order could begin to collapse. A new financial mechanism would be needed to seize the initiative for transcending the liberal separation of economy from polity and for re-embedding the economy in a society imbued with equity and solidarity."

(Robert W. Cox, Timothy J. Sinclair, 1996, *Approaches to World Order*, p.311)

Traditional power and New Power

- sooner or later traditional powers will change their strategy towards Africa;
- the emergence of the new partners has given Africa a policy-space. And the current financial crisis has compounded this, and given even more potential policy space to African countries;

Political Enthusiasm and commitment from Chinese leaders?

'China will 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**'

Hu Jintao

The China-Africa Development Fund (CADFund)
First representative office in Africa (16th March 2009)

‘a major step for Sino-African co-operation’

China’s private business engagement with Africa

Strong entrepreneurial drive

‘They [the Chinese] are hard-working, very adventurous and innovative.’

The Chinese entrepreneurs have changed the concept of risk because when Western firms see “risk”, Chinese entrepreneurs see “opportunity”.

Why *are* Chinese firms investing in Africa?

The top 5 important motives for investing identified by Chinese firms surveyed
(in order of importance)

(1) Access to local market;

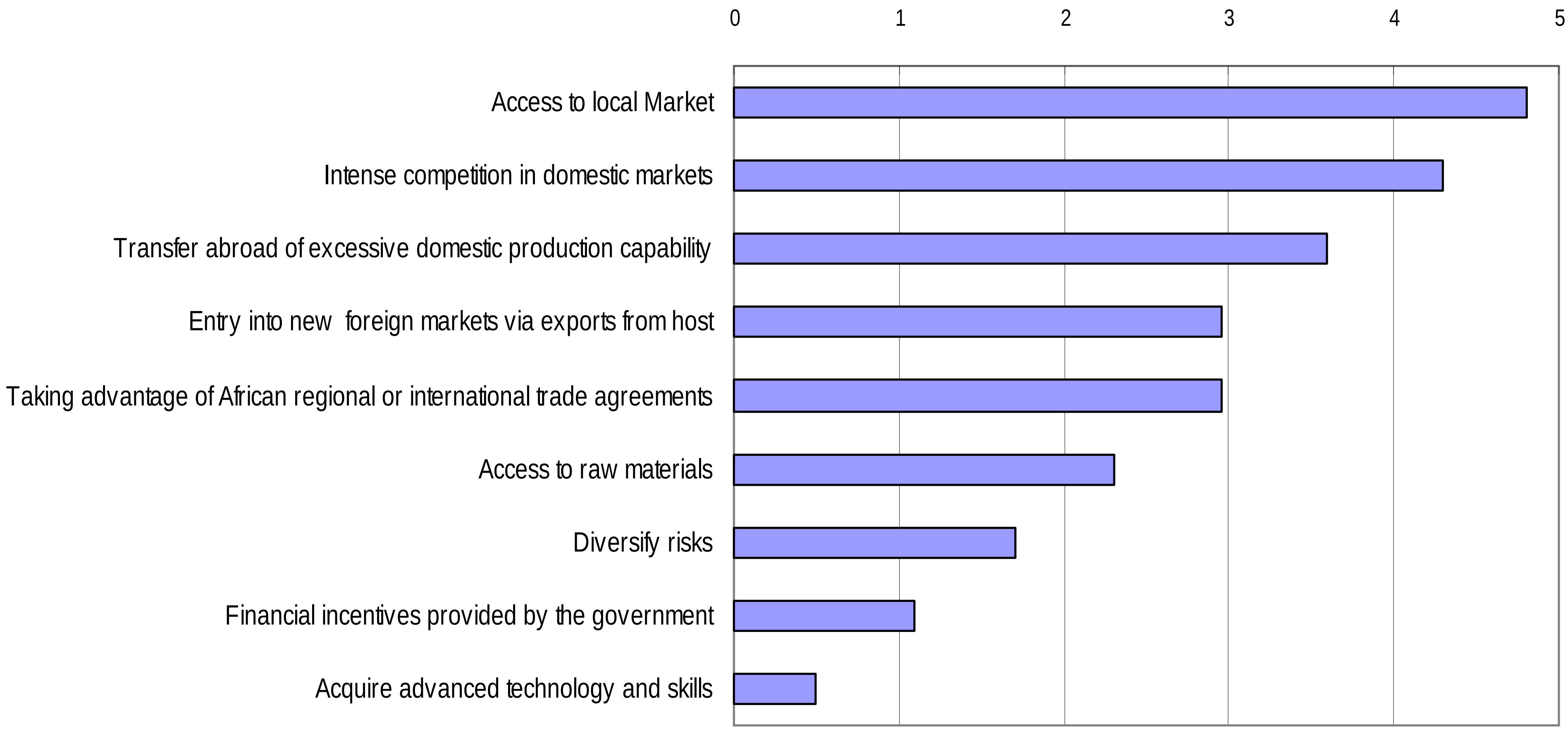
(2) Entry into new foreign markets via exports from host;

(3) Transfer abroad of excessive domestic production capability;

(4) Taking advantage of regional or international trade agreements;

(5) Access to raw materials.

Reasons for Investing in Africa



Source: China-Africa Project Survey

Why *are* Chinese firms investing in Africa?

“Despite the strong wind and wild waves, the deepwater still has fish to be found”.

(Feng Da Lang Ji, Shui Shen You Yu)
风大浪急，水深有鱼

Growing Competition in China's domestic economy may further encourage Chinese firms to go abroad,

Chinese companies exporting to Europe and America have adjusted rapidly to the slowdown in these markets by finding new markets, such as in Africa.

- In a new trend, the stated intention is 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.

The Best Time?

‘Taking a long view, now is the best time to invest in Africa for those companies who are competitive”.

Chinese CEO in Africa 2009

‘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’. (CEO of South Africa Standard Bank)

Conclusion: Key points

- The global financial crisis will not have big impacts on China's public and private business engagement with Africa.
- Meanwhile, Africans have to recognise that they are not just dealing with Chinese SOEs mainly interested in natural resources, but that China is also engaging through its private sector in a changing structure of international trade and investment, transferring part of its value chain to Africa and giving Africa the opportunity to push up the value chain.
- These developments are largely insulated from the financial crisis, if not actually accelerated by it.
- They require, however, a multifaceted African response, through government, the private sector and unions in Africa.
- Benefiting from engagement with China is positively related with the level of African domestic capacity in production, management and human capital.

What does it mean for Africa? Development implications

Firstly, it is a ***dynamic*** *picture in Africa. We need to recognise that there is much more* ***diversity*** *and there are many more actors involved. It's an* ***unfolding*** *picture. And it requires also a* ***multidimensional response****.*

Secondly, there is a ***mutual learning process*** *for both Chinese public and private sectors and also for China-Africa relationships.*

Adjustment of China's Export-oriented Strategy and “Going Out” Policy

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I. Choice of China's export-oriented strategy

At the beginning of the reform and opening up movement, China's development faced two major challenges: first, how a large socialist country could make a fundamental transition in its economic system; second, how a large developing country could achieve rapid economic take-off and development.

By the end of 1978, the reform and opening up movement had become a basic national policy. The central point of institutional change was the relationship between the government and the market as well as between the central government and local governments[1]. In other countries, market “failure” was mainly reflected in three areas: equity, externalities and macro-control. China still has the characteristics of a great power and the mission of institutional transformation and poverty eradication.

China’s choice of an export-oriented and investment seeking strategy is based mainly on the following reasons:

(i) “Experimentation before popularization”, or in other words, gradually expanding the zones of economic opening to the outside world. In August 1980, four special economic zones (such as Shenzhen) were established. Influenced by the East Asian development model, the incentive orientation of Chinese special economic zones or economic development zones is primarily characterized by attracting foreign investment and an orientation toward exports.

(ii) Attracting investment is a major feature of the Chinese opening-up policy. Different from the practice adopted by Japan and South Korea of borrowing long-term foreign loans, overseas Chinese capital is essential for China's economic take-off. In the early 1980s, 80% of FDI was invested by Hong Kong enterprises with main investment in finished processing and manufacturing products such as the export of clothing, textiles, luggage and footwear. In the 1990s, Taiwan-funded enterprises and East Asian-funded enterprises began to transfer some manufacturing processes for IT and electromechanical products to mainland China, which not only eased foreign exchange, capital and supply shortages as well as increased employment, tax revenue and national income, but also created external competitive pressures, starting the “learning by doing” process of the market and enterprises.

[1] Well-known American economist Anne Krueger noted two important prerequisites of effective government intervention in the economy: first, that the government aims to improve economic efficiency and intends to develop the economy, and second, that there are no information costs, regulatory barriers or other obstacles to implementation. Please refer to Anne Krueger (1993) *Political Economy of Policy Reform in Developing Countries*, MIT Press: Cambridge, MA and London.

(iii) Attracting outside investment can promote transformation and upgrading of export and industrial structures. In 1986, Chinese textile and garment exports surpassed oil exports for the first time, marking the transformation from resource-intensive exports to labor-intensive apparel and textile exports. In 1995, the export scale of electromechanical products exceeded textile and apparel products, signifying the structural transformation from traditional exports to non-traditional exports. After China's entry into the WTO, the export of high-tech products showed rapid growth. Among them, the processing trade sector witnessed rapid development. This is China's solution to transfer surplus labor.

Table 1　Proportion of each economy's export goods as a percentage of global goods exports during 1948-2006 (%, 100 million dollars)

	1948	1953	1963	1973	1983	1993	2003	2006
Global exports	590	840	1570	5790	18380	36750	73710	117830
China	0.9%	1.2	1.3	1.0	1.2	2.5	5.9	8.2
India	2.2	1.3	1.0	0.5	0.5	0.6	0.8	1.0
Brazil	2.0	1.8	0.9	1.1	1.2	1.0	1.0	1.2
Japan	0.4	1.5	3.5	6.4	8.0	9.9	6.4	5.5
USA	21.7	18.8	14.9	12.3	11.2	12.6	9.8	8.8
Germany	1.4	5.3	9.3	11.6	9.2	10.3	10.2	9.4

Data source：　World Trade Statistics 2007 of WTO

Table 2　The developing countries that attracted the most FDI (foreign direct investment) globally during 2002-2007[2] (100 million dollars)

	2002	2003	2004	2005	2006	2007
China	493	471	549	791	781	840
Russia	35	80	154	129	308	525
Brazil	166	101	182	152	188	346
India	56	43	58	67	175	210

Data source：Global Development Finance 2008

Table 3：Distribution of FDI in manufacturing and real estate industries during 2002 - 2007 (100 million dollars)

Year	Manufacturing industry Amount actually used / proportion（%）	Real estate industry Amount actually used / proportion（%）	Total of amounts actually used in FDI
2002	368.00　(69.77%)	56.63　(10.74%)	527.43
2003	369.36　(69.03%)	52.36　(9.79%)	535.05
2004	430.17　(70.95%)	59.50　(9.81%)	606.30
2005	424.53　(70.37%)	54.18　(8.98%)	603.25
2006	400.77　(63.59%)	82.30　(13.06%)	630.21
2007	408.60　(54.65%)	170.90　(22.86%)	747.68

Data source: 2002-2007 China Statistical Yearbook

[2] Data are based on IMF IFS Statistics and World Bank estimates and may show discrepancies with China Statistical Yearbook data.

II. Adjustment of China's export-oriented strategy

In the process of reform and opening up, there exist different and controversial opinions on some of China's major domestic issues.

(i) In the field of foreign trade, the choice of a strategic orientation (such as "import substitution" and "export orientation") is one of the issues. Although facts have proven that the development of the export-oriented model showed a better performance than import substitution[3], some scholars from China, India, and Brazil have always doubted whether the "export-oriented" small economic model is adaptable to the development practices of a great power. Jagdish Bhagwati, a well-known scholar of international trade, pointed out that the export-oriented economy incentive focuses on exports, resulting in the excessive inflow of resources to the export departments[4]. Other issues include the role, transformation and directions for future upgrade of processing trade; the international division status, as well as the role of imports.

(ii) In the fields of investment promotion, the issues involve the comprehensive costs and benefits of "market-driven", "cost-driven", and "resource-driven" FDI; equity seeking, market share, branding and technical control of multinational companies; the role of foreign capital in increasing employment, GDP and tax revenue; and technology spillover, pollution, energy consumption and other relevant issues.

(iii) In the field of balance of payments, there are extensive debates over the trade surplus of goods and service trade deficit, the nature and use of foreign exchange reserves, revaluation of RMB and capital project opening, and coordination of domestic development and opening-up and other issues. The contribution of the opening up policy to China's reform and development has been unanimously recognized.

The economic trade frictions between China and developed and developing countries showed a trend of increasing tensions. This issue is actually determined by China's great power characteristics, socialist nature and the degree of its participation in globalization. Under these circumstances, China began to adjust policies for expanding domestic demand and stabilizing external demand, and its export orientation and strategy will give way to a strategy of scientific development and a strategy of expanding domestic demand. For this reason, since 2005 China has made a series of policy adjustments to trade, investment, employment, exchange rates, resources and the environment as well as substantial adjustments to incentive policies for processing trade and policies for attracting investment, while the costs of land, labor, and other inputs continued to rise.

III. Adjustment to China's export-oriented strategy accelerated by the American financial crisis

The profound impact of the American financial crisis on China's exports can be seen mainly in three areas: first, reduced external demand; second, trade protectionist pressures in

3 World Bank "World Development Report 1987", China Financial Press, 1987 version.

4 Jagdisb N.Bbagwati "Export-promoting Trade Strategy Issues and Evidence", The World Bank Research Observer，1988，January。

international trade; third, the domestic shocks and external shocks independently adjusted by China prior to the financial crisis were intertwined in the fourth quarter of 2008. Specifically, its impacts are reflected in the following areas:

(i) China's strongly export-oriented and economically developed areas were subject to greater shocks. Foreign investors in the heavily export-oriented and economically developed Pearl River Delta suffered significantly larger external shocks than in the Yangtze River Delta and the Bohai Rim. Surveys and research show that for 60,000 Hong Kong enterprises in the Pearl River Delta region, 20% of large enterprises or advanced enterprises were capable of resolving external shocks and achieving industrial transformation, about 20-30% of the enterprises had difficulty adapting to the new situation and were bound to be phased out, and about 50-60% of the marginal enterprises could withstand the shocks and challenges and initiate industrial upgrading or else be phased out. All the enterprises would face the central difficulty of lack of funds for tiding over the turbulent period. The financial crisis in America caused the loss of commercial and bank credit and some traditional financing channels were closed.

(ii) Cost-driven FDI suffered significantly larger external shocks than market-driven FDI. China issued relevant environmental protection, energy saving, labor protection, export rebates, interest rate adjustments and other macro-control policies to which foreign-invested enterprises, in particular small and medium-sized enterprises, found it difficult to adopt in the short term.

(iii) The industries closely related to the international division of labor and exchange, such as high-tech processing and assembly enterprises, electromechanical processing and assembling enterprises, textile and garment processing and manufacturing enterprises and other types of enterprises suffered significantly larger external shocks than non-trade sectors. Small and medium-sized enterprises, in particular small and medium-sized enterprises funded by Taiwan, Hong Kong and Macao suffered significantly larger external shocks than multinational corporations. Furthermore, in the fields where FDI showed the fastest growth rate in recent years, such as real estate, municipal construction, large infrastructure and consumer services, FDI was also seriously impacted.

IV. China's "go global" policy and FDI

According to statistics, from 2002 to 2007, China's non-financial FDI achieved an average annual growth rate of 56%. By the end of 2007, the accumulated stock of FDI had reached 117.9 billion dollars, out of which the financial stock of FDI had reached 16.72 billion dollars and non-financial stock had reached 101.19 billion dollars. Non-financial direct investment ranked in the top six primarily included the wholesale and retail industry, the business services industry, the transportation warehousing industry, the mining industry, manufacturing, and real estate. After the financial crisis broke out in the United States, China's FDI continued to grow despite economic headwinds. According to preliminary statistics, China's FDI in 2008 reached 52.15 billion dollars, of which non-financial FDI amounted to 40.65 billion dollars with an increase of 63.6 % year-on-year and accounting for 78% of total FDI; financial FDI was 11.5

billion dollars.

The “go global” strategy for Chinese enterprises at the present stage is focused primarily on implementation of the following objectives:

First, establishment of overseas R & D or design centers to take advantage of international advanced technology, management experience and professional talent. At present, R&D is concentrated mainly in America, Japan and Europe rather than being truly global. One of its features is that the degree of internationalization of R & D activities is high but scientific and technological content is low, which indicates that the core technology advantage of America, Japan and Europe lies mainly in localization rather than internationalization. In this case, Chinese enterprises should start to invest to establish R & D and design centers in America, Japan and Europe, such as the R & D centers established by Huawei in London and other locations and the design centers established by Chery in Turin, Italy.

Second, the development of overseas investment can help advance projects for which there are currently insufficient domestic resources. In this regard, there has been a great deal of discussion on questions such as whether iron ore and other resources belong to strategic resources for FDI, whether China is taking the best opportunities for overseas investment in mineral resources, and whether Chinese enterprises are ready to carry out large international acquisitions and mergers. Chinese enterprises can accelerate the pace of utilizing international and domestic resources on the basis of mutual benefit and win-win goals. Surveys and research on Southeast Asia and Africa show that not only large-scale state-owned enterprises and joint-stock enterprises have begun to invest in resource development projects in Africa, but private small and medium-sized enterprises have also begun to engage in early-stage mineral exploration and other high-risk investment projects. Including this type of “South-South Cooperation” investment model in infrastructure, social undertakings, mineral resources and other comprehensive development in Southeast Asia, Africa, Latin America and other locations is conducive to promoting economic development in Southeast Asia, Africa, Latin America and the continuous advancement of a harmonious world.

Third, efforts should be made to drive the export of domestic technology, products, equipment and foreign investment projects dealing with labor export. At present, Chinese enterprises are significantly speeding up their pace to “go global”. On the one hand, Japan, Korea, Europe and other countries have carried out an increasing number of activities for inviting investment in China and have also created a good investment environment for China's FDI. On the other hand, China has established a growing number of economic and trade cooperation zones in which large enterprises are taken as the leading growth engines to drive FDI of small and medium-sized enterprises. In addition, China has concluded free trade agreements with ASEAN, Chile and New Zealand and other economic entities, which are valuable for Chinese enterprises, in particular for small and medium-sized private enterprises, which are seeking to “go global”. At present, the financial crisis and international trade protectionism are causing widespread and serious effects and have become an important impetus for China's enterprises to “go global”.

Fourth, Chinese FDI should set the goal of opening up international markets. In this regard, Haier is clearly at the forefront in Chinese enterprises with its multiple objectives to develop locally marketable mainstream products for the long term in America, Japan and South Korea and other countries, to establish mainstream marketing channels for local marketing, and to cultivate global brands which can be rooted locally. Despite a FDI strategy with big investment, a long cycle and high risks, Haier is becoming one of the few international brands in the domestic market and one of the local brands in the American, Japanese and Korean markets after many years of efforts. Hit by the impact of this financial crisis, Chinese enterprises' export market and sales channels have suffered great losses and as a result they have gained a deeper understanding of the business maxim "channels are everything". In our survey and research, we found that the purchase price of fruits planted by fruit growers from Shaanxi for processing concentrated fruit juice was about RMB 0.8 per catty last year, but decreased to RMB 0.08 per catty; if the price continues fall, the fruit growers can't afford to continue to plant the fruit trees. One of the reasons for this is that no international marketing channels for concentrated fruit juice have been established. Once foreign customers significantly reduce the procurement volume, the revenues of Shaanxi fruit growers will decline as a result. The facts require the function of Chinese foreign trade and economic cooperation zones to expand from processing and assembly manufacturing to overseas sales. Furthermore, Chinese foreign trade companies should develop from performing a single function to instead become integrated trading firms with global supply chain management. Finally, Chinese agriculture should realize a transformation from focusing on meeting domestic demand to stabilizing domestic demand and expanding external demand, thereby ensuring the export earnings of farmers and diversification of small and medium-sized export markets.

China and low income regions

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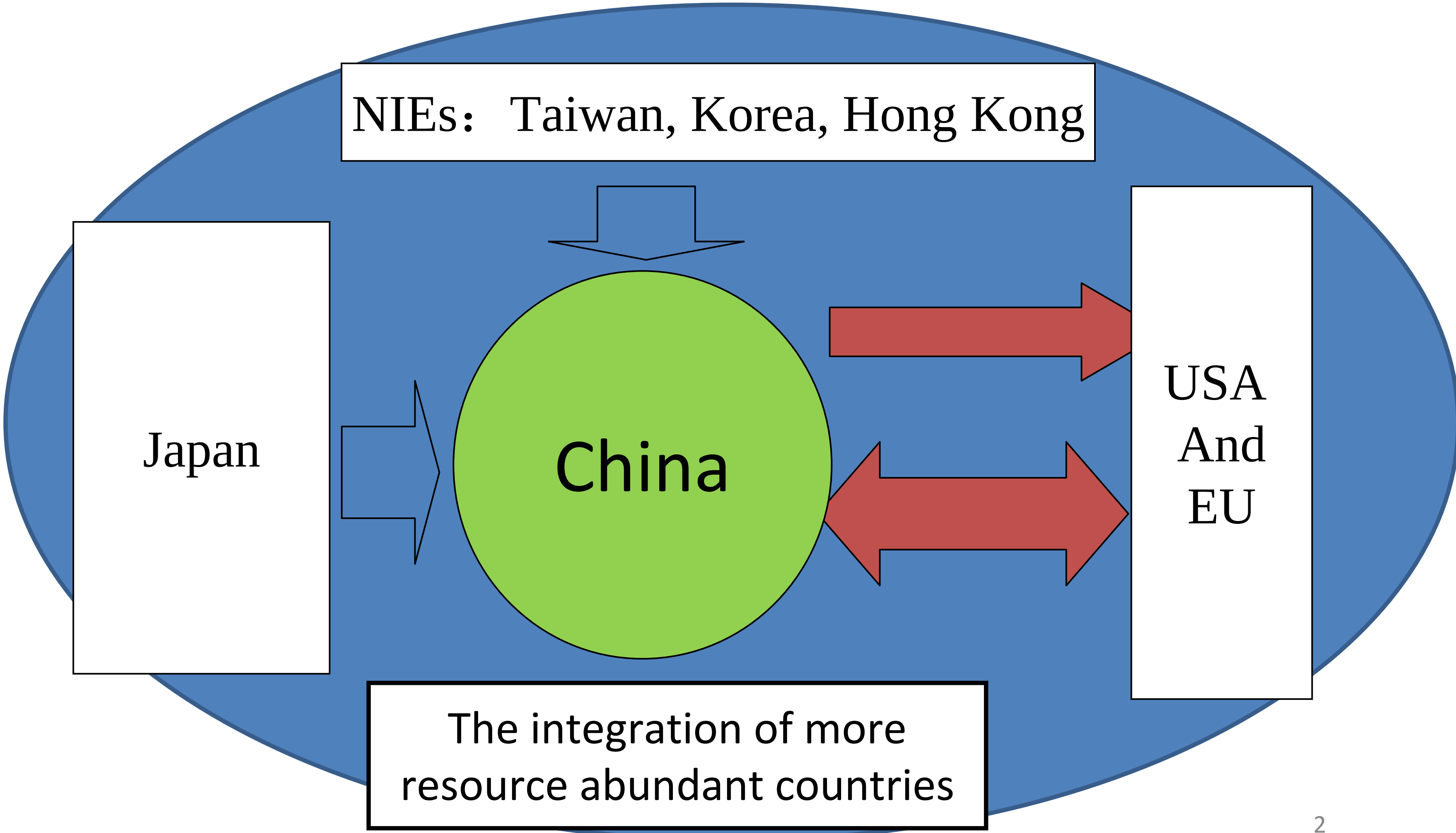
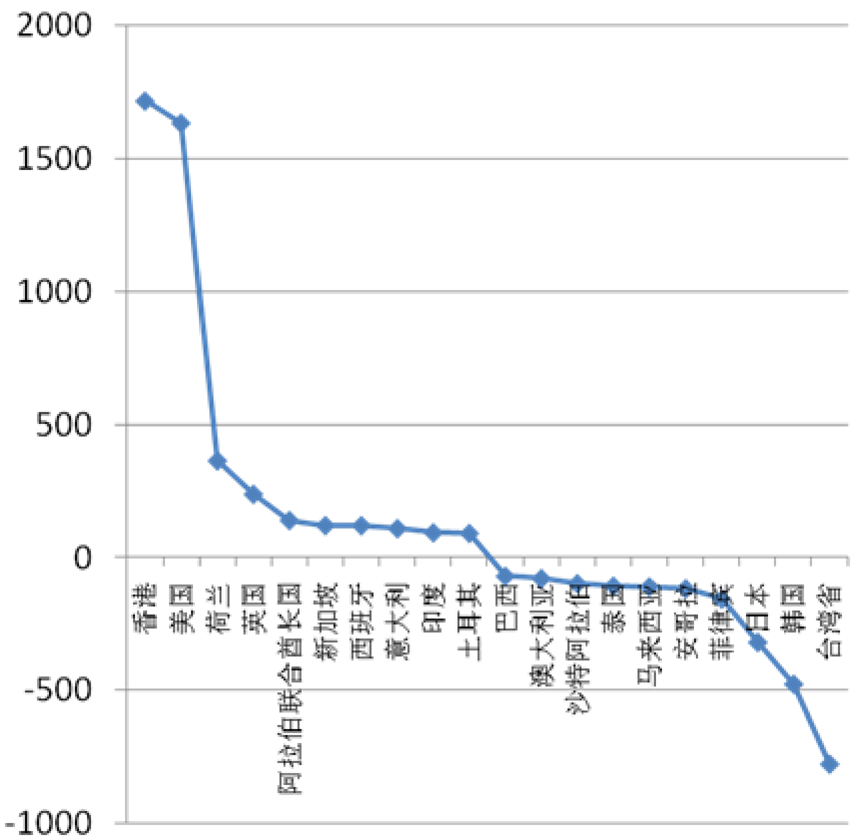
China's role in the world economy



The regional economic bridge, 2007/2008

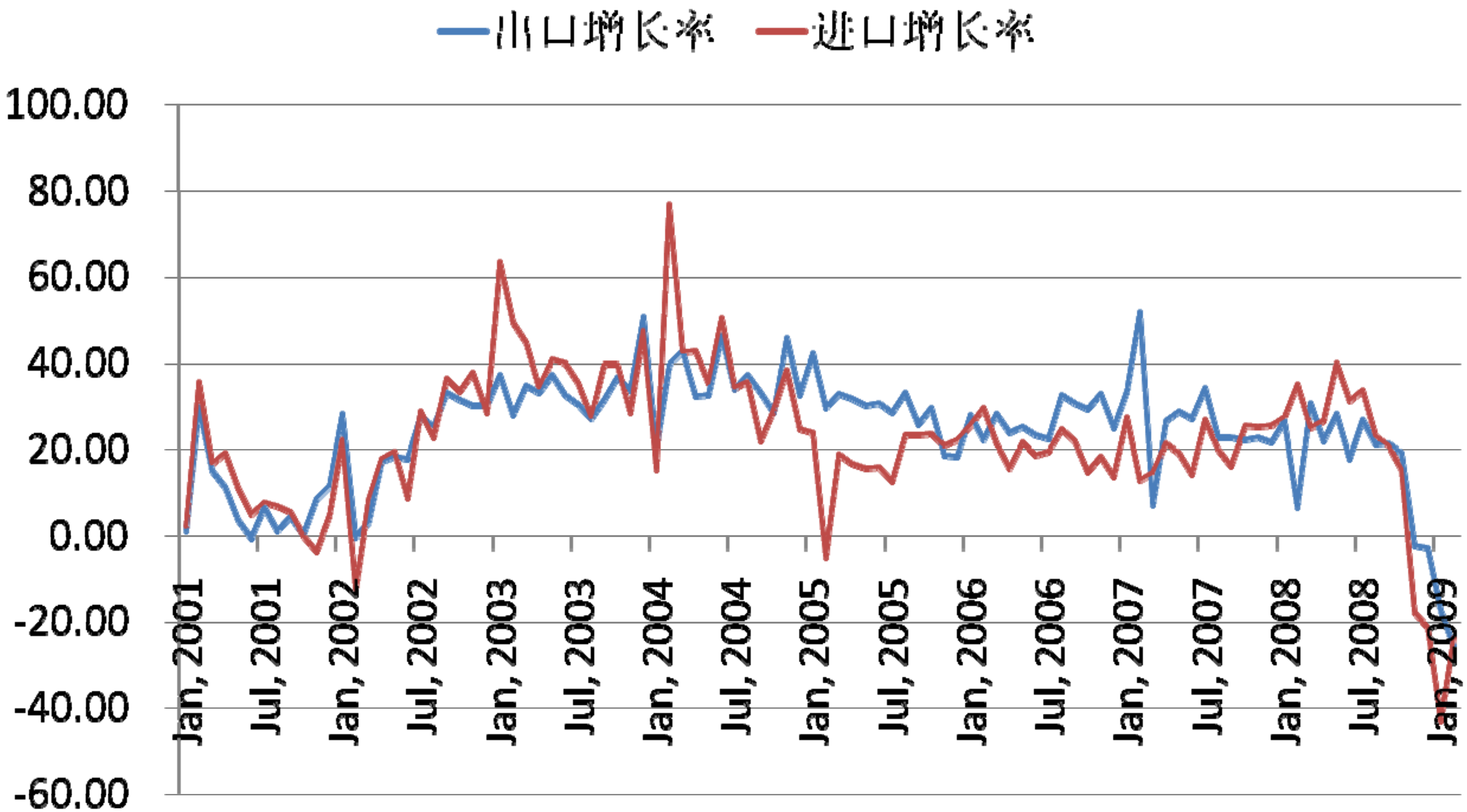


Hong Kong	1716.157	Brazil	-69.61
USA	1633.252	Australia	-78.5882
Holland	364.8558	Saudi Arab	-97.5324
UK	238.8135	Thailand	-106.901
United Arab	140.196	Malaysia	-110.169
Singapore	121.1923	Anglo	-116.574
Spain	121.0602	Philippine	-156.156
Italia	109.6187	Japan	-318.794
India	93.8469	Korea	-476.154
Turkey	91.8541	Taiwan	-775.635

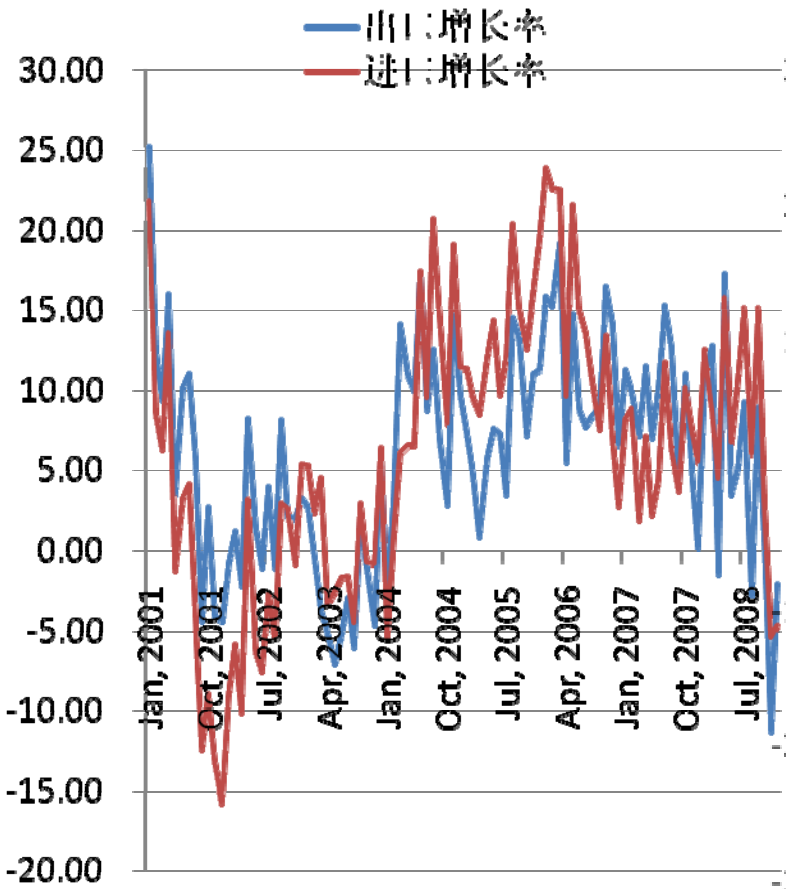
Who benefit from China's Growth?

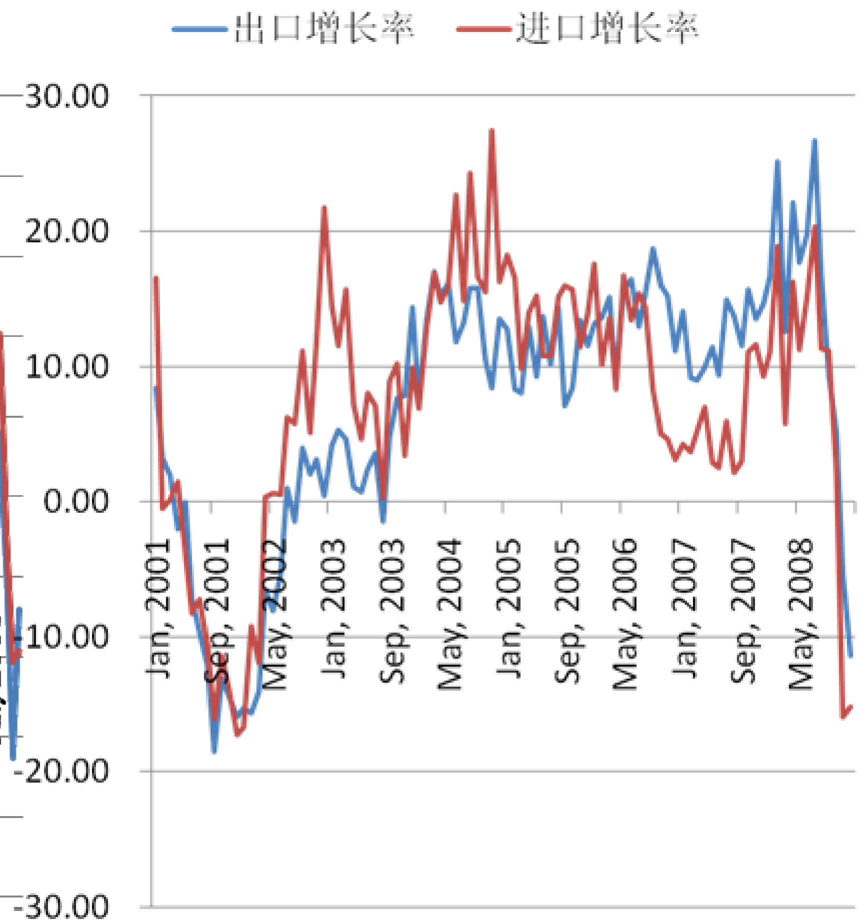
2006-2007, $ 100 m			1993 —2003 , $100 m		
	import	share		import	share
Japan	182.77	11.11	Japan	508.55	16.54
Korea	140.02	8.51	Korea	377.75	12.28
Taiwan	139.34	8.47	Taiwan	364.29	11.85
USA	101.82	6.19	USA	232.78	7.57
Germany	75.02	4.56	Germany	182.95	5.95
Australia	65.31	3.97	Malaysia	129.03	4.20
Philippine	54.43	3.31	Thailand	82.27	2.68
Brazil	54.22	3.29	Singapore	79.15	2.57
Malaysia	51.38	3.12	Philippine	60.93	1.98
Thailand	47.05	2.86	Australia	53.56	1.74
Chile	45.21	2.75	Saudi Arab	50.76	1.65
India	43.56	2.65	Brazil	49.82	1.62
Iran	33.55	2.04	Russia	48.68	1.58
Canada	33.18	2.02	France	44.57	1.45
total	1645.78	100	Total	3080	100.00

The collapse of China’s trade



The collapse of EU and USA trade



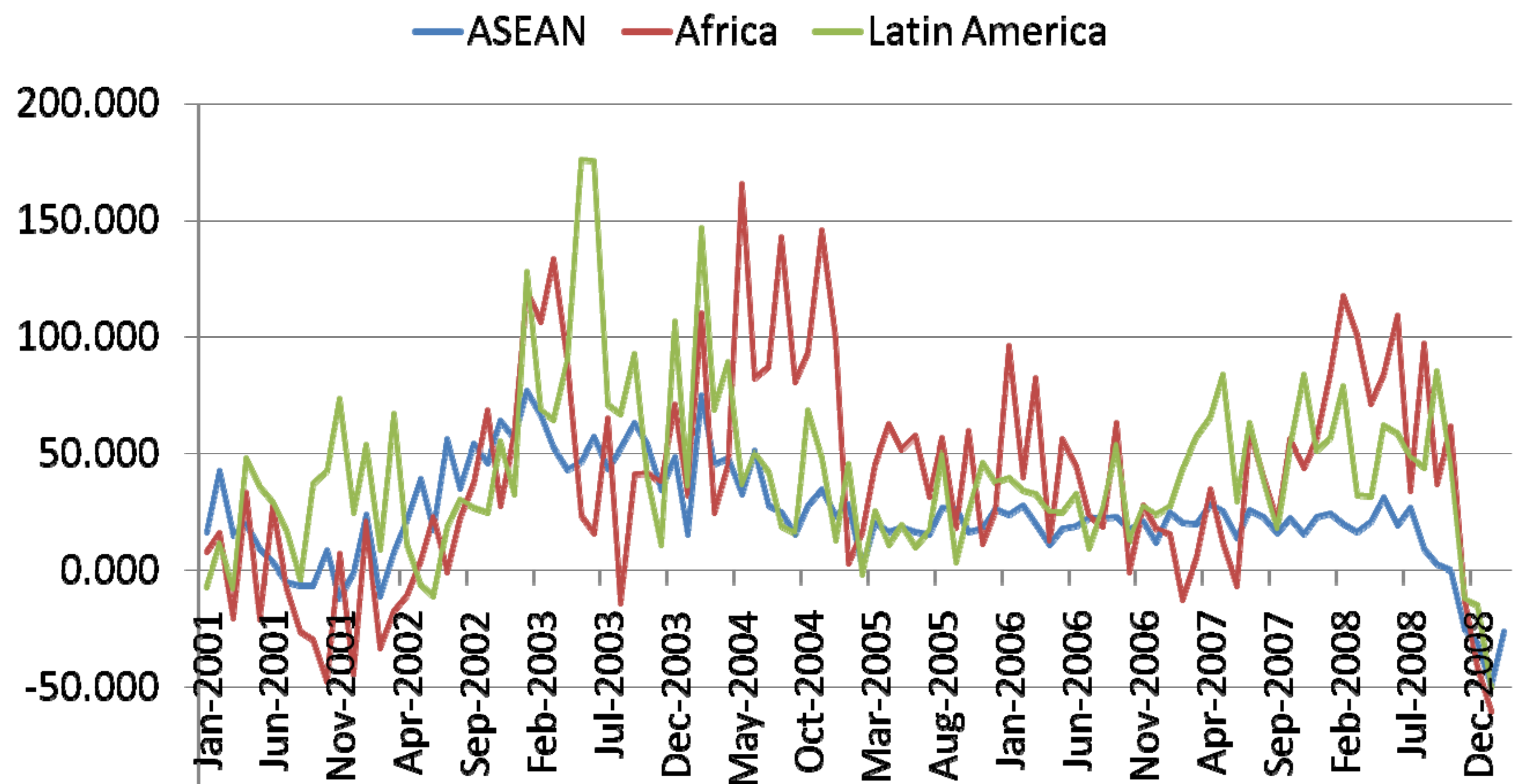


The import and export from low income regions, latest data

	ASEAN	Africa	Latin America
Jan-2008	24.05	84.40	56.29
Feb-2008	19.49	117.32	78.73
Mar-2008	16.18	100.34	32.35
Apr-2008	20.89	71.09	31.61
May-2008	31.08	83.53	62.03
Jun-2008	19.31	109.00	58.48
Jul-2008	26.51	34.16	48.67
Aug-2008	8.90	97.17	44.18
Sep-2008	2.61	37.18	85.01
Oct-2008	-0.06	61.32	45.36
Nov-2008	-25.39	-12.73	-12.38
Dec-2008	-31.36	-41.66	-14.72
Jan-2009	-49.68	-60.78	-50.02
Feb-2009	-26.31		

	ASEAN	Africa	Latin America
Jan-2008	37.39	44.99	50.96
Feb-2008	21.06	16.44	18.04
Mar-2008	44.04	82.67	83.97
Apr-2008	32.16	42.49	46.50
May-2008	28.01	46.98	55.81
Jun-2008	17.91	22.80	36.76
Jul-2008	30.77	36.20	58.30
Aug-2008	27.28	43.32	40.76
Sep-2008	24.16	40.46	53.73
Oct-2008	21.52	43.95	39.54
Nov-2008	-2.38	15.68	3.08
Dec-2008	-10.64	23.07	1.81
Jan-2009	-22.02	6.43	-18.15
Feb-2009	-27.73		

The import from low income regions



How about China’s outward FDI?

- The outward FDI In low income countries is mainly resource oriented, and also local market oriented;
- New opportunity for resource FDI, not for the local market oriented FDI;
- 1) Chinese SMEs suffer a lot; 2) low income countries demand also drop.

The investment in Low income countries, 2003-2007, $ m

	Indonesia	Thailand	Vietnam	Algeria	Sudan	Guinea-Bissau	Madagascar	*Nigeria*	South Africa
2003	26.800	57.310	12.750	2.470		1.200	0.680	24.400	8.860
2004	61.960	23.430	16.850	11.210	146.700	14.440	13.640	45.520	17.810
2005	11.840	4.770	20.770	84.870	91.130	16.340	0.140	53.300	47.470
2006	56.940	15.840	43.520	98.930	50.790	0.750	1.170	67.790	40.740
2007	99.090	76.410	110.880	145.920	65.400	13.200	13.240	390.350	454.410

Aid and Chinese economic model

- Aid will increase because those activity is based on the receipt countries’ situation, not that of the donors;
- The fever of Chinese economic model in low income countries, maybe.

Conclusions

- Trade with low income regions suffer a lot;
- FDI maybe as well;
- Fever of Chinese economic model.

China and the Financial Crisis – Discussion on Enlightenment for Low-income Economies

China and ASEAN in the Crisis: Impacts and Trends

Zhao Jianglin

Institute of Asia-Pacific Studies, Chinese Academy of Social Sciences

March 20, 2009 (Friday)

I. Background: Different impacts of two financial crises on China - ASEAN

	1997	2008
Source	ASEAN (developing countries)	The U.S.A. (developed country)
Affected range	Regional	Global
Affected sectors	Finance - Entities	Entities
Solutions	Regulating financial system/ relying on U.S. market	Domestic demand / regional internal market
Economic recovery	2-3 years	Longer?
Impact on China - ASEAN relations	China - ASEAN FTA	?

I. Background: Different impact of two financial crises on China - ASEAN

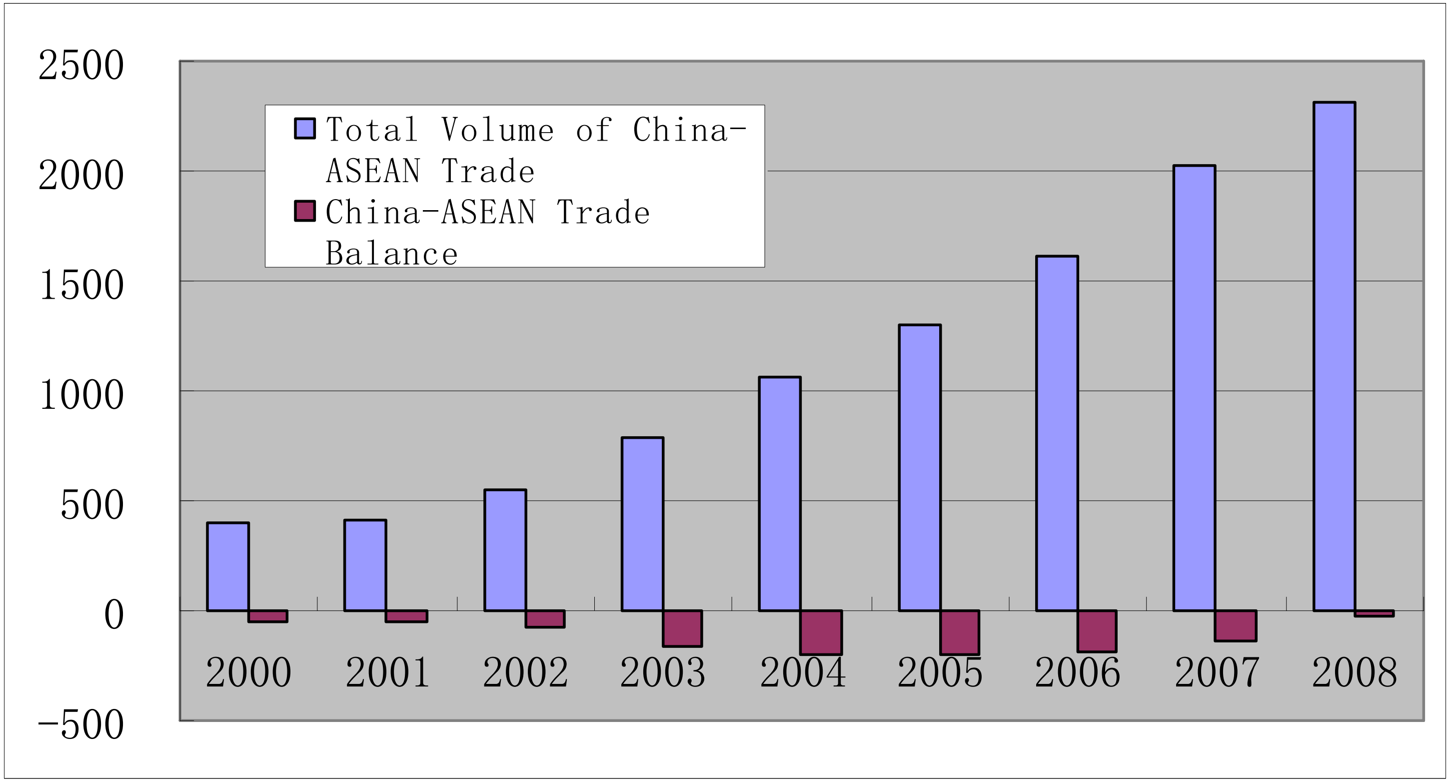
	$0-1,000	$1,000-3,000	$3,000-5,000
Countries	Laos, Cambodia, Burma	Indonesia, Philippines, Vietnam	Malaysia, Thailand, China
Degree of impact	Small	Moderate	Large
Influencing factors	External	External	External & domestic
Growth forecast	Remains unchanged	Falls but still robust	Low-speed?
Policy direction	Remains unchanged	Continue to implement current policies	Look for new economic growth points?

II. The financial crisis in 2008: New turning points for China - ASEAN relations?

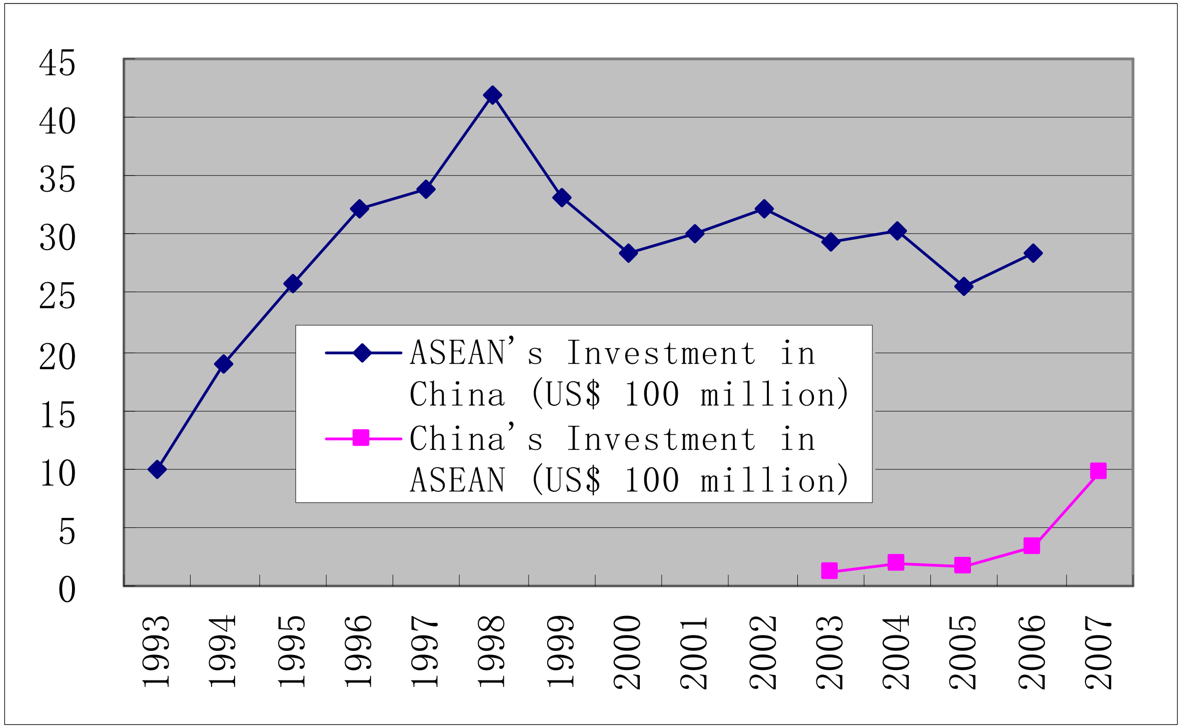
Development of China - ASEAN economic relations since 1997:

- In December 1997, the First China-ASEAN Summit was held to establish a good-neighbor partnership of mutual trust oriented towards the 21st century.
- In 2000, the proposal on setting up China - ASEAN FTA was initiated.
- In 2002, China and 10 ASEAN leaders signed *The Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China* , which officially launched the process of building the China - ASEAN Free Trade Area which was decided to be completed by 2010.
- In October 2003, the *Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity* was signed at the Seventh China - ASEAN Summit. China officially joined the *Treaty of Amity and Cooperation in Southeast Asia*, promoting mutual political trust.
- In November 2004, ten new proposals on strengthening mutual cooperation were put forward at the Eighth China - ASEAN Summit. The two parties also signed the *Agreement on Trade in Goods* and *Agreement on China and ASEAN Dispute Settlement Mechanism*, marking a substantive step toward constructing the China - ASEAN Free Trade Area.
- In July 2005, with the implementation of the *Agreement on Trade in Goods* for China-ASEAN Free Trade Area, more than 7,000 types of commodities on both sides were subject to across-the-board tariff reductions, and the volume of trade continued to grow.
- In January 2007, China and ASEAN signed the *Agreement on Trade in Services* for the China-ASEAN Free Trade Area. The agreement officially took effect on July 1 of the same year, initiating the first round of developing services trade for the two sides.
- The negotiations concerning *Investment Agreement* has ended after many rounds of discussions in 2009, and the *Investment Agreement* for China-ASEAN Free Trade Area is expected to be signed at the China - ASEAN Summit in April. From January 1, 2009, China began to adopt tax rates specified in the China - ASEAN Free Trade Agreement for parts of the tax items of commodities originating from the ten ASEAN members and the third step of normal tariff reduction. There are approximately 6,750 tax items with the conventional tariff after the tariff reduction; compared with the MFN rate, the average preferential margin is about 80%.

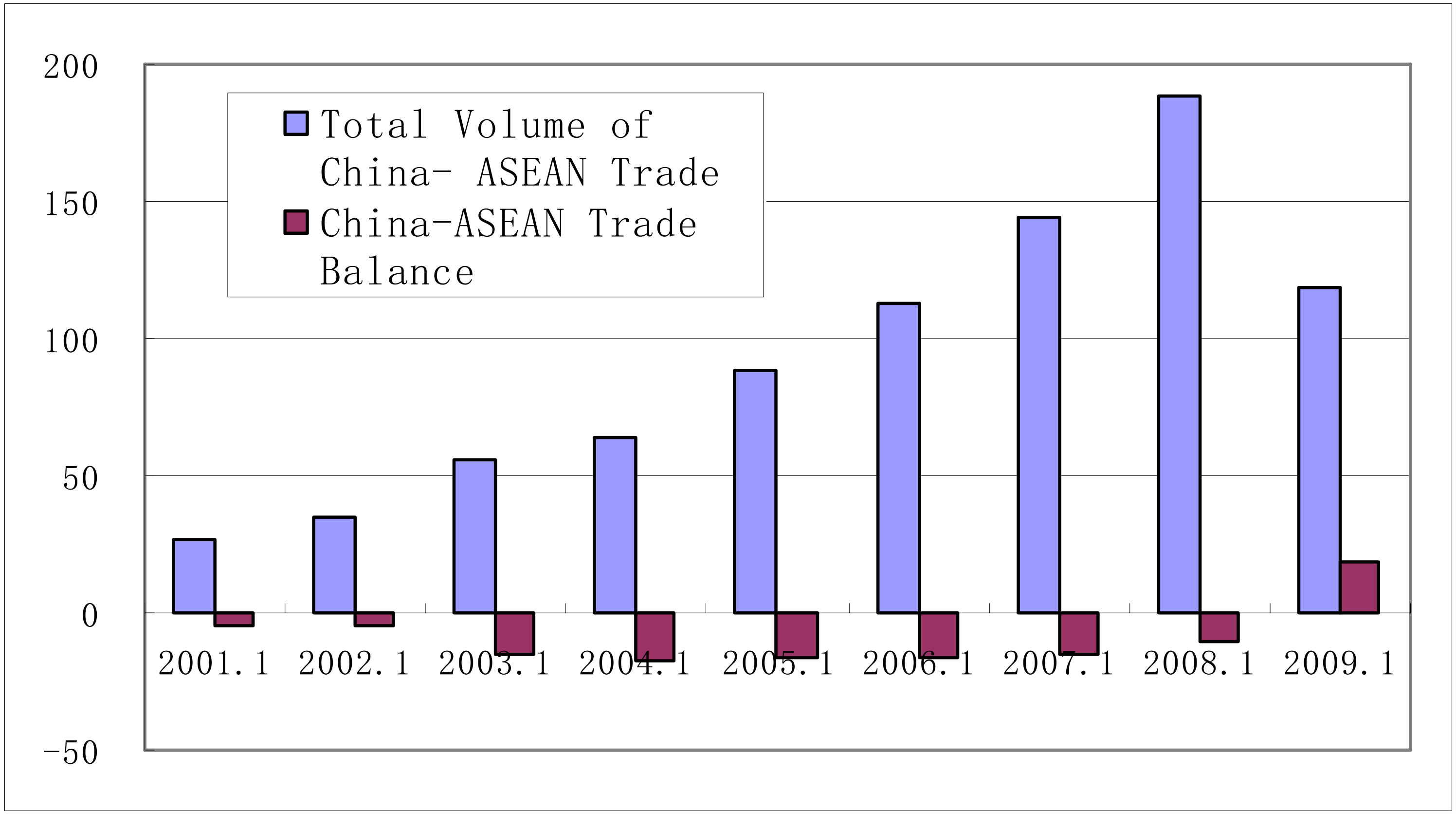
Changes in China - ASEAN Trade



China - ASEAN Mutual Investment



Impact of 2008 Financial Crisis on China - ASEAN Trade?



Impact of 2008 Financial Crisis on China - ASEAN Trade?

III. Development of China-ASEAN relations in the crisis and its policy implications

Impact of 2008 financial crisis on China - ASEAN relations:

- Consumption of export products? Relying on external markets → relying on internal market (intraregional and domestic)
- The adjustment direction of industrial division: setting up industrial systems to serve the regional consumer level
- Further strengthening of the regulations? *Investment Agreement*, the RMB settlement, currency swap or others?

Policy Implications:

China: domestic demand + participation in establishing ASEAN's regional integration

ASEAN: internal demand + positive promotion of China - ASEAN economic relations

Thank you!

China and the Financial Crisis – Implications for Low Income Countries

Philip Karp

World Bank Institute

First - I would like to thank the organizers – Brookings Center at Tsinghua University and Institute of Development Studies - for inviting me to serve as a discussant at this workshop.

I'm particularly pleased to have the chance to offer some thoughts during this particular session on China and its Relationships with Low Income Countries: Trade, Investment, Aid and Political Relations, as support for China's growing international engagement is an increasingly important aspect of the World Bank's work in China, and even more so of my own work here, given the role of the World Bank Institute in promoting South-South learning and knowledge exchange.

I will focus somewhat broadly on the issue of China's relationships with low-income countries, particularly with Africa, rather than necessarily on implications of the financial crisis with respect to these relations.

There is no doubt that China is playing an increasingly important role in developing countries, particularly in Africa. This is manifesting itself in increased levels of outward FDI, as noted by Prof. Zhang in his presentation, and by commitments such as those made during the China-Africa Summit in Shanghai in 2006 and again by President Hu Jintao during his recent visit to Africa, for a doubling of Chinese trade and aid to Africa. At least on the trade front, actual figures are in fact well ahead of the promises, as will be discussed in some detail by Mark George in his presentation this afternoon.

China is also playing a major role as a provider of financing for infrastructure in Africa. A recent World Bank report on this noted that China's investment in infrastructure in Africa over the period 2001-2007 was roughly comparable to that financed by all OECD countries combined, through their ODA programs, during the same period.

However China's growing role and importance in low income countries, and particularly in Africa has also been the source of considerable debate, both in Western Countries and in Africa.

Much of this debate has centered around the notion of competing development models – in particular of the Washington Consensus versus the Beijing Consensus. A number of scholars and observers have suggested that China's economic success over the past 30 years - as well as its approach to engagement with other developing countries - represents a repudiation of the policy prescriptions associated with the Washington Consensus, and indirectly of advice from the Bretton Woods Institutions which, according to this view, are dominated by the interest of the United States.

My view is that this suggested dichotomy is both simplistic and inaccurate. More importantly it leads to missing what I believe is actually a key lesson from China's development experience, and one that I do believe if quite relevant for other countries.

Let me first touch on the notion that China's development path is based on an approach that is largely antithetical to the policy prescriptions of the Washington Consensus. I won't go through all of the policy recommendations that are associated with Washington Consensus, particularly since the list was revised or qualified quite a bit over time following John Williamson's initial publication, in 1989, from which the Washington Consensus term emerged. Let me simply note that among the keep policy prescriptions are trade liberalization, deregulation, opening up to FDI, privatization, and removal of subsidies.

Now let's look at China's reform process. In China, the process is stated as Gai Ge Kai Fang which translates roughly as "Change the System, Open the Door".

Let's look at key elements. "Change the system" involved a process of altering incentives and ownership and moving from an economy of nearly 100% state ownership to one where private enterprise is dominant. This transformation has been nothing short of dramatic. In 1978, at the beginning of the reform process, SOEs accounted for nearly 80% of industrial production, with most or the remainder coming from collectives. However by 2003, private firms accounted for more than 70% of industrial output.

You can call this transformation whatever you want, but to me, it sure looks like large-scale privatization.

Now let's turn to "Open the Door". Before 1978, China was one of the most closed economies in the world. Today, it is one of the most open in the World. Key components of the "Open the Door", aspect of the reform process were liberalization of trade and foreign direct investment. Admittedly, the change didn't happen overnight. In the case of FDI, foreign investors were initially confined to Special Economic Zones where they were given favorable tax and regulatory treatment as well as free access to foreign currency. However, by the mid-1990s pretty much all of the country was open to FDI and the special privileges available to those in SEZs disappeared. Today, cities and provinces across China are competing with each other to offer the most attractive climate for both FDI and private domestic investment. Much of their efforts involve further deregulation or removal of administrative barriers.

On the trade front, China has consistently maintained a trade regime that is more open than that of other developing countries at similar levels of per capita GDP. And the openness goes beyond low tariff levels.

When one looks at China's standing on the World Bank's Global Investment Climate Survey and other similar rankings, it scores very highly in areas such as efficiency of customs administration, ports efficiency, cost of transport, etc.

So - again, on questions of trade, FDI, and deregulation, China's actual reform experience is once again pretty much in line with the policy prescriptions attributed to the Washington Consensus.

I could go on, but I'll leave it at that in the interest of time. I do however want to give one very interesting anecdote, which pertains to what is deemed to be a key tenant of the Beijing Consensus, and which is said to differentiate China's international engagements from those of the West. One of the three elements of the Beijing Consensus as set out by Joshua Cooper Ramo, is that of self-determinations, and globalization on each country's own terms. I recently came across a very interesting quote from a former Syrian Minister of Finance. He explained that in a meeting with his counterpart from the Chinese Government and with a group of Chinese companies, he had asked the following question – What does Syria need to do to attract investment from China? The response from the Chinese Finance Minister - "Before we will invest in Syria, you must open your markets, cut your subsidies, and reduce regulation".

The point I am trying to make here is that the Washington Consensus / Beijing Consensus is in my view a false dichotomy. The nature of the policy measures adopted by China during its reform process is not all that different from that prescribed by the World Bank and others, nor are they much different from what is in reality being advocated by China to to other countries. What is different, however, is the unique way in which China went about the reform process. Rather than being based on a particular model or ideology, the change process in China was pragmatic and based on experimentation. Many reforms were introduced through a process of pilot testing, evaluating results, and scaling up what worked and abandoning what didn't. Sometimes this was top-down and deliberate, as with the case of FDI liberalization through SEZs. In other cases, it was bottom-up, sometimes through initiatives of local officials who went against the established policies of the Central Government.

Indeed, I would suggest that if there is one key lesson for other developing countries from China's experience it is to be pragmatic; to experiment with new ideas, assess what works and replicate it, but not to be afraid to abandon what doesn't work - even if this goes against the advice of the so called experts. Another implication is that each country must find its own way and adapt lessons from other countries to their own conditions. There is no "one size first all".

This was recognized by Deng Xiaoping when, in 1985, he told Ghana's President Jerry Rawlings "Please don't try to copy our model. If there is any experience on our part, it is to formulate policies in light of one's own national conditions". I think this is very wise advice. There is indeed a lot that other countries can learn from China's experience -the key then is to adapt this experience to their own needs, circumstances and conditions. This is precisely this type of understanding and adaptation that the World Bank is aiming to support though our work on China-Africa engagement.

Global Financial Crisis and China: Challenges and Opportunities

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March 20, 2009

China's macro challenges before the start of the global financial crisis

- China's macroeconomic conditions and capital market development before September 2008

1. Surplus labor (or hidden unemployment)
2. Surplus capital (excessive liquidity)
   - is more about China's inflation/deflation rather than about China's competitiveness; Inflation and RMB appreciation are substitutes in the longer run and they are equivalent channels for the adjustment of China's domestic price level relative to that of US (real appreciation of RMB)
3. Price distortion: inflation, price control and dominance of large SOEs
   - Rising prices in food, oil, raw materials
   - Rising wages due to inflation and labor contract law
   - Inefficient use of energy, natural resources and environment.
4. High volatility and bubbles in the property and stock markets

China's Surplus Labor and Employment Challenge

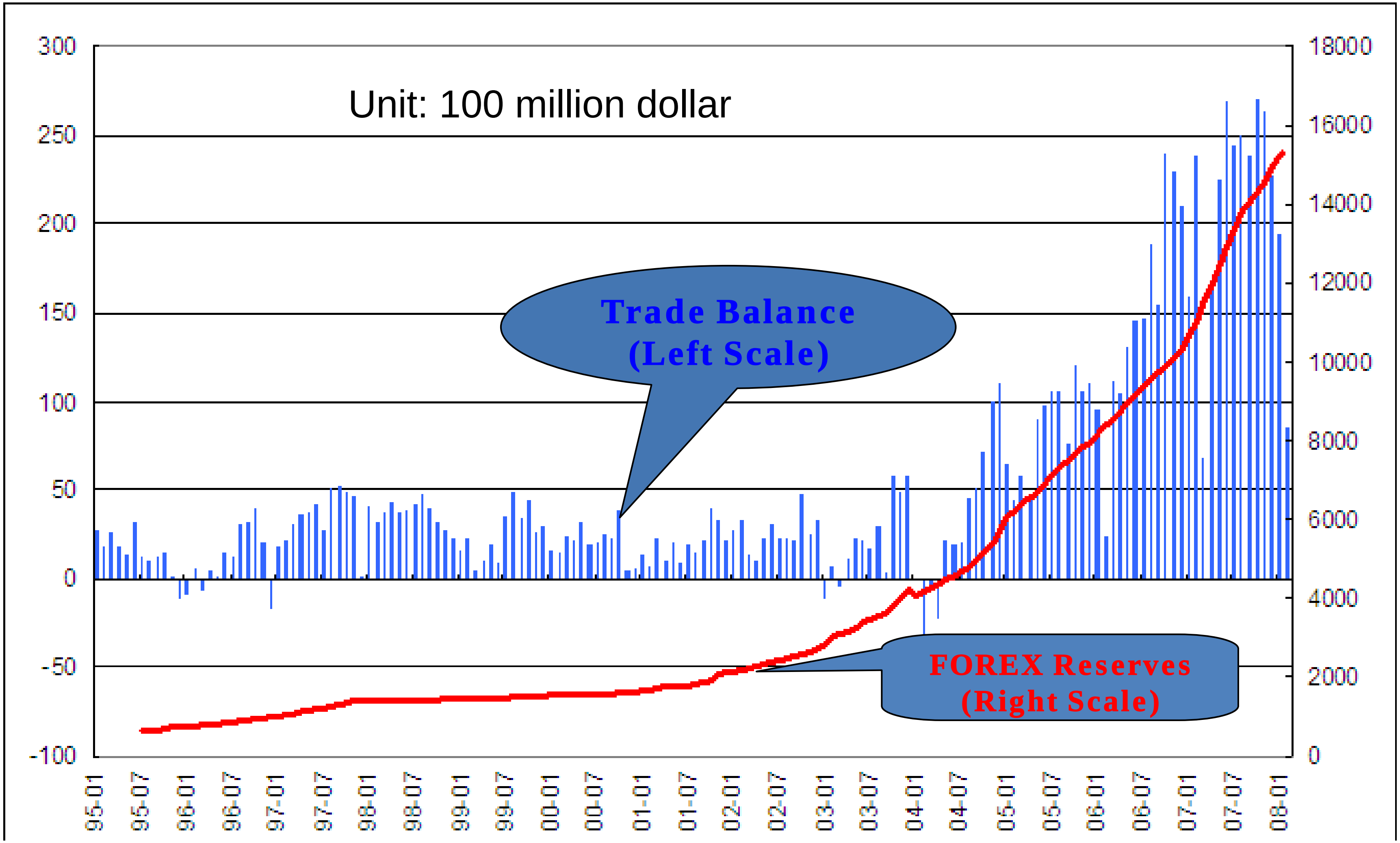
- In 2006 the total employment in China is 764 million
  - 119 million of migrant workers (average monthly wage of $120)
  - 362 million rural workers.
  - 481 million unskilled workers (119+362)

- 481 million rural and migrant workers in China face 2 choices
  - stay in the villages
  - find a job in the cities

- If the miggrant workers stop working, their unemployment will not be counted in the official unemployment statistics
  - This hidden unemployment increased sharply this year according to observations by local officials in coastal provinces, especially after the start of the global financial crisis in September 2009

China's Surplus Capital

9% of GDP in 2006;11.5% of GDP in 2007



China is subsidizing the whole world due to inefficient investment!

- Price control on energy and raw materials
  - which distort prices for major factor inputs
  - leading to over-use of energy and raw materials and environmental damages
- Unclear ownership or state ownership of natural resources
  - which distorts prices for many natural resources
  - leads to over-use of natural resources and environmental damages
- Large SOEs in the monopoly sectors
  - distort prices of their products and services
  - Leading to over-use (i.e. electricity) or under-use (i.e. telecom services) of their products and services

- China is effectively subsidizing the consumers of Made-in-China products around the world, which is *not* sustainable!

SOEs Performed Worse than Non-SOEs but Still Dominated in Strategic Sectors and among Large Enterprises

Structure and Performance of Top 500 Chinese Enterprises in 2007（%）

Ownership	No. of Firms	Profits	Assets	Employees	Taxes	Return on Assets
State	69.8	87.94	93.63	89.32	92.69	1.40
Collective	5.80	2.22	4.15	2.35	1.67	0.80
Private	17.8	7.08	1.73	7.00	3.94	6.08
Foreign	6.6	2.76	0.48	1.33	1.70	8.48

Source: China's Top 500 Enterprises, 2007.

Negative Real Interest Rate (-3% before September 2008) = nominal interest (4%)- inflation rate (7%)

- Negative real interest rate
  - which distorts the bench-marking price of capital
  - leading to the over-use of cheap credit by inefficient projects
  - instability of the property and stock markets
  - stock index fell about 60% from the peak in Oct 2007
- The distortion in factor prices
  - makes it difficult to find and finance more efficient projects
  - effectively raising the transaction costs of surplus capital hiring surplus worker
- Root of real negative interest rate
  - The direct root is inflation
  - But indirectly, it is currency appreciation and the expectation of appreciation that stopped the central bank from raising the nominal interest rate to fight inflation
- When inflation is falling, real interest rate turns positive and high, so central bank can afford to reduce nominal rate aggressively.

The Nature of the Current Global Crisis

The Roots of Global Crisis

– Inconsistent macro economic policies: cheap credit and distorted prices in capital and factor markets.

– Loop-holes in the management and regulation of complicated financial products: subprime loans and derivatives.

Global "Triangular Debt"

– Unlike previous crises, the current one has unfolded in the world's largest economies—the U.S., Europe, Japan.

– No lenders of last resort: No outsiders can write a check to the U.S. to stop its debt crisis.

– The U.S. government and many U.S. corporations cannot possibly declare bankruptcy without creating a systematic risk for the global financial system.

– Result: gigantic "triangular debts" will continue to stay on the books of the governments and private sector for the U.S., Europe, and Japan for a long time.

Policy Recommendation 1:
Stabilize RMB Exchange Rate to Facilitate RMB as an International Reserve Currency

- Completely stop the RMB appreciation expectation by going back to a more or less fixed rate with the US Dollar or a basket of currencies.
- If necessary, it may be useful to allow the RMB to depreciate a significant amount so as to completely shake off the expectation of one-direction stable appreciation of RMB.
- This policy option is needed for eliminating the unnecessary uncertainty and complications associated with speculative capital inflows and outflows.
- This policy will also facilitate the evolution of RMB into an international reserve currency similar to dollar, Euro, and yen.

Policy Recommendation 2:

Make Real Interest Rate Positive and Compatible with Opportunity Costs of Capital

- When the market no longer has the expectation of one-way steady RMB appreciation, PBC can set the interest rates aggressively to deal with both inflation and deflation pressures.

- When there are inflationary pressure, the central bank needs to raise the nominal interest rate is to off-set the inflation or inflation expectation so as to improve the investment and consumption efficiency and to avoid future asset bubbles.

- The first half of 2008 would be the best time to raise interest rates since the stock market and property market in China was falling to low levels and were not likely to fall much further. China could use banking regulation to deter interest rate arbitrage, for example, impose taxes on interest earnings of those deposits used for interest rate arbitrage and install certain inflation-proof deposit rates if inflation becomes high, say above 8%. With no bubbles in property and stock markets and no expectation on RMB appreciation, the speculation on US-China interest rate gap will not be very profitable after deducting the transaction costs and taxes.

- After the onset of global financial crisis since September 2008, inflation falls sharply and the threat of deflation becomes real, it become necessary for central bank to reduce nominal interest rate aggressively.

Policy Recommendation 3:
Eliminate Price Control and Subsidies to the Global Consumers of "Made in China" Products

- Now is the best time to free the prices for key factor inputs such as labor, land, energy, water, and raw materials given the slowdown of the global economy and the sharp decline of oil and raw materials prices.
- Elimination of price control and implementation of aggressive fiscal stimulation package means that inflation at a high single digit level is likely to come back in the near future.
- So price reforms should be carried out together with social safety net reforms that help and subsidize the income of the poor directly.
- Price reforms can also be carried out by phase with a clear plan to guide the market expectation on the pace of price liberalization.
- Price reform is likely to stimulate efficient supply and discourage wasteful and harmful use of natural resources.

Policy Recommendation 4:
Simplifying Tax Regimes and Reduce Tax Rates to Improve Productivity and Efficiency

- As an emergency measure, China could temporarily (for example for the year 2009 and 2010) stop collecting some central and local taxes such as transactions taxes in the property and stock markets, and most central and local taxes applied to small and medium-sized enterprises
- As an emergency measure, China could also reduce most tax rates by 30% for the year 2009 and 2010.
- The above temporary measures need not affect the reform of tax structures and tax rates in the long-term but would provide an opportunities to learn about the effects of less taxes and low tax rates on the efficiency of the economy, in addition to stimulating the economy.
- The tax cuts proposed above will complement the fiscal stimulation package already proposed by the government to generate a sizable central government fiscal deficits of up to 5% to 7%.

Policy Recommendation 5:

Seize the present opportunity to encourage innovation in capital market and strengthen socially beneficial regulation

- Ensure that regulatory rules add social value and improve the enforcement capacity of all regulators
- Continue to privatize financial market participants so as to improve their competitiveness
- Speed up the development of traditional equity and bond markets to increase the leverage of the Chinese economy so as to reduce the risks of future non-performing loans in the banking sector
- Find innovative and low-risk mechanisms to make the RMB an international reserve currency to facilitate a smooth and fast development of China's capital market (see the proposal of "Shanghai Global Exchange" as an example).

Policy Suggestions to Handle the Global Crisis

1. Establish A Trilateral Emergency Currency Peg/Stabilization Mechanism
2. Create A Group of Allied Global Central Banks Including Fed, PBOC, and BOJ
3. Recapitalize Key and Viable Global Corporations with Global Sovereign Funds
4. Create A Managed Global "Wage & CPI" Growth /Inflation
5. Implement Coordinated Macroeconomic Policies
6. Coordinated Tax Reduction and Public Spending Schemes

1. Establish A Trilateral Emergency Currency Peg/Stabilization Mechanism

The Core Component: Fixed Exchange Rate Regime

– An agreement on an emergency trilateral currency peg among dollar, RMB, and yen at the current level of exchange rate for as long as it is necessary to stop global recession and deflation.

Eliminate Exchange Rate Risks and Stop the Temptation of Competitive Devaluation

– With the U.S., China and Japan acting as global leaders, the world can eliminate a large part of the man-made and unnecessary exchange rate risks and politics.

The Only Barriers Are Political

– Large amount of foreign exchange reserves held by China and Japan is solid ground for peg of RMB and yen to the dollar.

– Support from the U.S. is critical, and strong leadership by the U.S. new administration could help to overcome the political barriers.

2. Create A Group of Allied Global Central Banks Including Fed, PBOC, and BOJ

First Step: RMB and Yen As International Reserve Currencies

– Help from the U.S. is crucial in establishing the RMB and yen as international reserve currencies.

Second Step: Establish Currency Swaps and A Pool of Reserve Funds

– The Fed, PBOC and BOJ establish currency swaps and a pool of reserve funds, large and credible enough to act as the world's lenders of last resort.

Third Step: Form a Group of Allied Global Central Banks

– A group of allied global central banks for coordinated leadership in global macroeconomic, regulatory, monitoring and crisis-managing policies and actions.

3. Recapitalize Key and Viable Global Corporations with Global Sovereign Funds

A Coordinated Rescue and Recapitalization Plan

– Key players: the group of allied global central banks and their respective governments.

– A coordinated plan for immediate and systematic rescue and recapitalization of key global financial and non-financial corporations.

– A mixture of liquidity provision and partial nationalization or recapitalization schemes through sovereign funds.

The Role of Sovereign Funds

– Passive minority shareholders.

– The goal: to restore public confidence in the markets.

– A successful example: Hong Kong government's intervention during the 1997-1998 Asian Financial Crisis.

4. Create A Managed Global “Wage & CPI” Growth /Inflation

A Worldwide, Managed, Smooth, and Single-Digit “Wage & CPI” Growth/Inflation

– A coordinated strategy set by the group of allied global central banks.
– The “Wage & CPI” Growth/Inflation lasts as long as it is necessary to pull the global economy out of the current Great “Triangular Debt” Crisis.

Goals of Managed “Wage & CPI” Growth/Inflation

– Encourage current consumption and investment, boost future prices of property and financial assets.
– Lighten the burden of the gigantic public and private “triangular debts”. No matter how large the current public and private debts become, as long as they are a fixed amount, they will become bearable after one or a few decades if the world can maintain a stable inflation rate between 5% and 10%.

5. Implement Coordinated Macroeconomic Policies

Joint Announcement of Minimum Targets of "Wage & CPI" Growth/Inflation by The Group of Allied Central Banks

– A coordinated strategy set by the group of allied global central banks.

– Form stable inflation expectations to protect the households and corporations so that they can operate productively under the future global environment of "wage & CPI" growth/inflation. .

Incorporation of Safeguards Is Necessary

– Without the timely upward adjustment of the nominal interest rate to offset the inflation rate, the inflationary policy will lead to a negative real interest rate, which, sooner or later, will create new asset bubbles.

– The "wage & CPI" growth/inflation policy should incorporate safeguards at the start so as to minimize the volatility of future business cycles.

6. Coordinated Tax Reduction and Public Spending Schemes

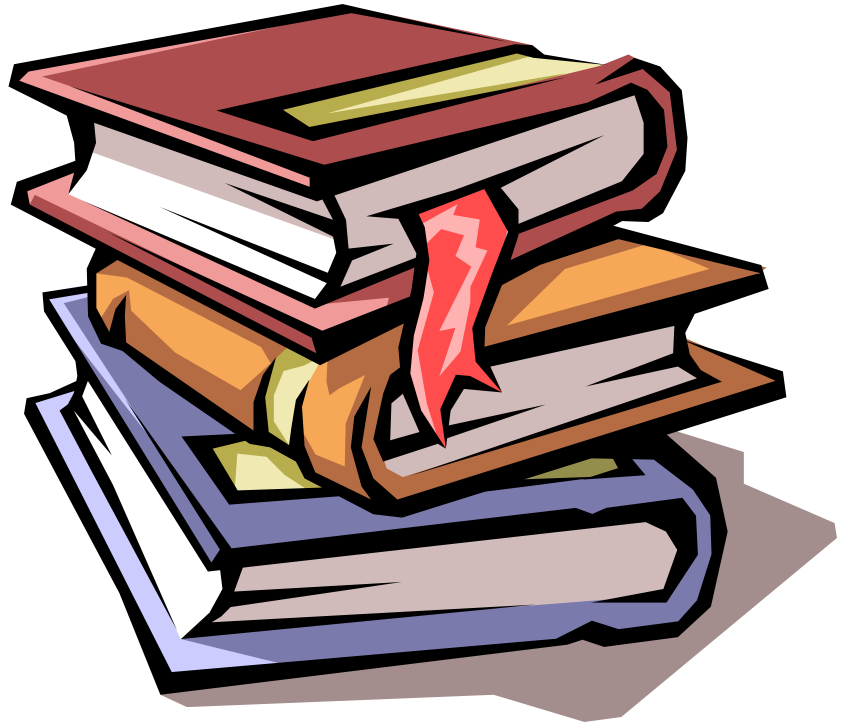
To Jump-Start the Economic Recovery and Employment Engine

- Current high unemployment rates are major obstacles to generate "wage & CPI" growth/inflation , therefore large fiscal stimulation packages are necessary to jump-start major economies.
- Such packages could include drastic tax cuts and public spending, until "wage & CPI" growth/inflation reaches 5% to 10%.

Policy Options

- Implementation of nominal income-enhancing policies such as temporary subsidies on individual payments to social welfare and retirement funds, and temporary waivers or reductions in taxes.
- Governments could in principle double nominal wages by matching wages in the private sector.
- Investment in major infrastructure projects that will benefit future generations to put to work most of the unemployed workers.

Thank You!



From crisis management to institutional reform: narratives of causes and consequences

Anna Schmidt

IDS

As the financial crisis deepens, policymakers are focused on responding to the immediate impact of the crisis. However, there is also a strong interest in prevention, i.e. the reform of national and international financial systems so that future crises can be better contained and managed. Here, economic considerations about tools and mechanisms are inevitably tied to political institutions and the shifting nature of global interdependence and power –effective reform is not a merely technical exercise. This brief outlines the importance of understanding the starkly diverging framing, or 'narratives' of the crisis and their likely influence on options for reshaping global economic governance.

The crisis has triggered a shift in power from the G8 to the G20.
The current situation is unique in its magnitude and in origins: caused in developed countries its rapid spread demonstrated the a qualitatively new level of global interdependence. Politically, it resulted in the high profile institutional outreach to emerging powers through the G20 forum rather than the traditional G7/8 forum.5 This promises adaptation to fundamental changes in the importance and interests of developing countries in the last fifty years.

Yet is the shift from G8 to G20 grand gesture or real change? The organisational principles of the G8 are based on its role as an informal club regime with self-selected membership (concerted power & constricted participation) and largely informal structures, including a focus on leadership. Previously, the combined economic strength of its members could sometimes have a decisive influence on markets or worldwide practice. But on many other issues it tackled, its power rested in its capacity to exercise leadership within multilateral fora.

Shifting global realities have undermined this role. Today China is a key contributor to world growth and has overtaken the US as the top importer of emerging market exports. China and India may well have contributed more to reducing world poverty than the G8. Other actors play an ever increasing role in North-South relations (for example, non-DAC donors, vertical funds and private foundations).

The G20's institutional authority is weak
The G20 was constituted after the Asian crisis of 1997-98. Its constitution is rather loosely based on the notion of 'systemic importance' i.e. countries who have the potential to affect the

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[5] The G20 consists of the G7 + European Union, the World Bank and the International Monetary Fund, Argentina, Australia, Brazil, China, India, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey. Indonesia.

system as a whole. However, its role so far has been small. Its members perceive it as a forum for informal dialogue. However, they also believe that G20 support for global initiatives has had "only a modest effect on members' behaviour, and even less impact on the behaviour of non-member countries." (G20-A History, p.59). If the G20 is to assume a major role in global economic governance, its authority will have to increase.

Institutional authority has many potential sources: it can be based on output and the ability to propel change, as well as the recognition of representativeness and adherence to the principles of their constitution. Both also depend on the ability to forge a shared diagnosis of the problems at hand.

There exist various competing understandings, or "narratives" of the crisis.[6]

1. The crisis is due to regulatory failure in the main capitalist economies. This narrative highlights failures in domestic mortgage markets, rating agencies and banking supervision.
2. The crisis is a manifestation of an enduring 'stability-instability paradox' inherent in capitalist markets. Cyclical financial panics emerge from periods of stability where excessive risk taking becomes normalized, leading to crisis and subsequent recovery.
3. The crisis results from 'exploitative hegemony' in which the US acted as an irresponsible great power. Its ability to force more of the costs of shock adjustment onto others allow it to consistently exploits its position (see Arrighi, 2005).
4. The crisis represents a deep and fundamental catastrophe of Western financial capitalism, which originates in a fatal flaw in the US system and was inevitable and is ultimately un-repairable.

A team of IDS researches tracked such underlying frames in national debates in selected G20 countries (India, Japan, Indonesia, Mexico, Brazil, South Africa, and South Korea as well as Europe and the United States). This served to identify elite-level debates and the positions of some key domestic actors between October 2008 and February 2009.[7] Box 1 illustrated how elements of the above narratives were expressed in national media:

Box 1: Narratives from national media in G20 countries

- An 'unhealthy relationship' between Asia and the West, sometimes framed in terms of a culture clash (India. Korea, Indonesia);
- Notions of Western 'greed' and arrogance and US/Western arrogance (India, South Korea);
- A general irresponsibility of western capitalist economies (Brazil);
- Chinese currency manipulation (US);
- 'Immoral capitalism' (France);
- Foreseeable regulatory failure (Canada).

[6] Adapted from Weber 2008.
[7] Views expressed are not weighted and findings do not represent government positions or general public opinion. For more details see Anna Schmidt et al. (2009).

Alongside geopolitical weight, these competing narratives influence views on participation and positioning in global fora. Developing countries experts seem to prefer a global rather than a national approach to the crisis (Coupe 2009). Yet, in national debates distrust in current processes appears widespread as illustrated in Box 2.

Box 2: National narratives about institutional solutions to the crisis

- Resentment of western institution for treatment received during Asian crisis of 1997-99. (Indonesia)
- Open and latent distrust of the role of the IMF in any solution and concerns that its ‘ideology’ has not changed (India, Japan, Indonesia, South Africa, Mexico)
- There can be no return to the pre-crisis status quo. (India, Japan)
- Wariness of G20 symbolism as well as a potential mechanism to make others share the responsibility for the ‘mess’ created by the G8 (South Korea)
- Value of G20 for information gathering or diplomatic reasons. (India, South Africa)
- Willingness to engage with new US leadership via the G20 and to reinforce multilateralism. (Brasil, Indonesia, South Korea)
- Insistence that Asian financial reserves provide an important source of power not easily traded off. (Indonesia)

Just expanding representation is not a solution. Policymakers understanding of the different framings of the crisis may be as important to create institutional authority (or avoid fruitless search!). For example, trust in current or future supervisory institutions will be essential given the difficulty to conclusively assess ‘systemic risk’ in financial markets. Any pre-designed approach in which those to blame for the crisis are seen as devising its solution for others to implement, are unlikely to be successful.

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China and the Financial Crisis – Implications for Low Income Countries

Ardo Hansson

World Bank

Thank you very much to the organizers of the conference. This is a broad topic, and not easy to summarize, so I'll just try to make a few points and share some of my reactions.

In terms of the potential economic impact of the financial crisis in China, and China's responses, the World Bank recently released an overview of economy. In the review we stated that China was initially unscathed by the financial crisis, but since last year, as the crisis moved into the real economy, and started affecting exports, foreign trade, and investment sentiments, China's economy has been affected. But the government has moved forcefully and swiftly with the stimulus package, which is helping and is supporting demand.

Because of more negative news on global front, and in China, we have downgraded our economic growth predictions to 6.5%, as the government stimulus package alone cannot outweigh other factors.

Overall China is making important contributions, and it is a relative bright spot in the international economy. As a whole, the global economy will likely decline by 1.5% this year, so China will in essence grow 8 percent faster than world average, which is a very good performance. China is doing what it can to keep its own economy in order, and its focus on infrastructure construction will help provide a bottom for commodity prices, and will help dampen the impact. China is also playing a constructive role by being vocal on issues of protectionism and on the importance of avoiding protectionist measures. One negative aspect of a globalized economy is that the financial crisis has pulled everyone down together, but the reverse is true as well, as globalization will pull everyone up quicker and together. So China is right to stress the danger of reverting to protectionist measures.

China also has a lot of flexibility to do more if should the global economic crisis and financial system deteriorate further, say for example if Eastern Europe's problems worsen. China still has fiscal space to implement other plans. If they do more, and they start running into limits on expanding the infrastructure, they could move more toward health, education, and social safety nets.

With regards to Prof. Xiao's remarks, about this being an opportunity to accelerate reforms, I agree that China would benefit a lot more by forgoing a little bit of growth in the near term in order to set the stage for the future. This is part of the narrative regarding China and the 1997 Asian crisis, where reforms during that period contributed to the wave of growth over the past decade.

He also mentioned the current distortions in certain prices that have contributed to pollution and other problems, and I share the diagnosis that these price distortions have been giving rise to some of China's more severe problems, such as energy and resource issues and pollution. Indeed, some of the policies from the 11th five year plan gave rise to these problems, leading to rapid energy demand increases, heavy industry growing at expense of light industry, and heavily polluting industries doing very well. This was likely related to pricing, taxation, and ownership issues related to energy and other types of resources, so now is a great opportunity to rectify these issues.

In the past there has been some reluctance to pursue policies that might lead to price and tax increases, because of fears about inflation, but now the risk of deflation might make is an opportune time to do some of these things. The change in fuel price changes is a good first step.

In terms of interest rates, and their link to exchange rate policies, I again share Prof. Xiao's view that as long as the market perceived a gradual trend of appreciation, the result was that interest rates were pushed low, which created some micro-economic distortions where you could no longer use interest rate to cool the economy, and instead have to do it through administrative means to control inflation. One measure was all kinds of quantitative limits on credit growth, to try and keep inflation under control, which in the end favored existing large banks, rather than new banks that might serve small and medium enterprises, and it prevented some new competitors from coming in and did not promote any restructuring of the economy. If there was more flexibility in the exchange rate, which would allow interest rates to do more of the adjustment, you could get rid of these credit limits and therefore open more space for small and medium enterprises, and encourage this movement toward a different growth model.

In terms of fixing the exchange rate, there are a lot of issues involved and I don't know if that would be a good step. Of course we want anchors of broad stability within the global system, but the current savings and investment imbalances cannot be maintained after the crisis, so the USA will have to reduce it's deficit, while others will have to reduce surpluses, and most likely an exchange rate adjustment will play some role in bringing that about, and probably means the RMB will have to become stronger over time. But if there is a fixed exchange rate, then changes have to come through inflation and deflation, which I think would be messier than exchange rate changes. So fixing an exchange right might be going too far.

On the topic of having a G-20, versus the G 7, there is indeed a lot of discussion. But in terms of where practical steps are being taken, you have much smaller sub-groupings where things are being discussed more maybe in more pragmatic terms, for example the US-China Strategic Dialogue, you have the prime ministers of China, Japan, and Korea getting together to talk about their sets of issues, you have ASEAN + 10 getting together to talk about their sets of issues, etc., which may mean there are these smaller forums where people are talking, and at the moment people are allowing smaller sub-groups to run with certain issues and to deal with problems. In ordinary times, maybe smaller countries would object to this type of organization, because they perceive themselves as having no voice in these types of groupings, and bigger countries might object to there being free-rider issues, where we are addressing these problems but all other countries are just coming along, but in this difficult moment it seems people are more concerned about getting the jobs done. But when things settle down, the smaller countries may want more voice.

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BROOKINGS-TSINGHUA CENTER FOR PUBLIC POLICY

Institute of Development Studies

中国与金融危机——对低收入经济体的影响
China and Financial Crisis – Implications for Low Income Countries

金融危机对非洲的冲击：
中国可以起什么作用？

The Impact of the Financial Crisis on Africa :

Can China make a Difference?

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2009年3月20日 （星期五）
March 20th, 2009 (Friday)

金融危机对非洲的冲击：中国可以起什么作用？

The Impact of the Financial Crisis on Africa : Can China make a Difference?

1. 金融危机对全球的影响
   The Global Impact of the Financial Crisis

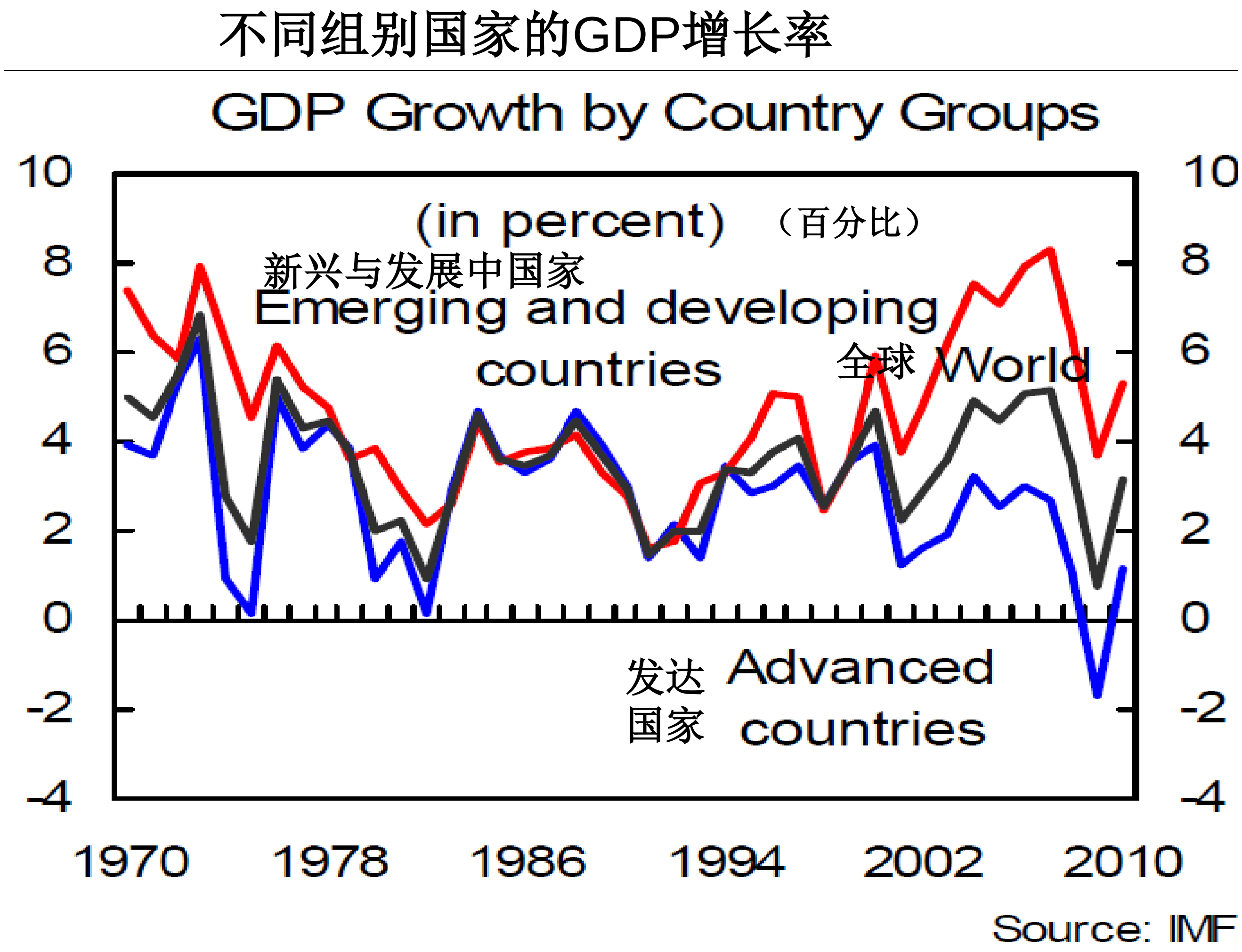
2. 金融危机对非洲的影响
   The Impact of the Financial Crisis on Africa

3. 中国与非洲的关系
   China's Relations with Africa

4. 金融危机对中国在非洲的影响
   The Impact of the Financial Crisis on China Involvement in Africa

5. 非洲发展新方向的机遇
   Opportunities for a new approach to African Development

金融危机对全球的影响 The Global Impact of the Financial Crisis

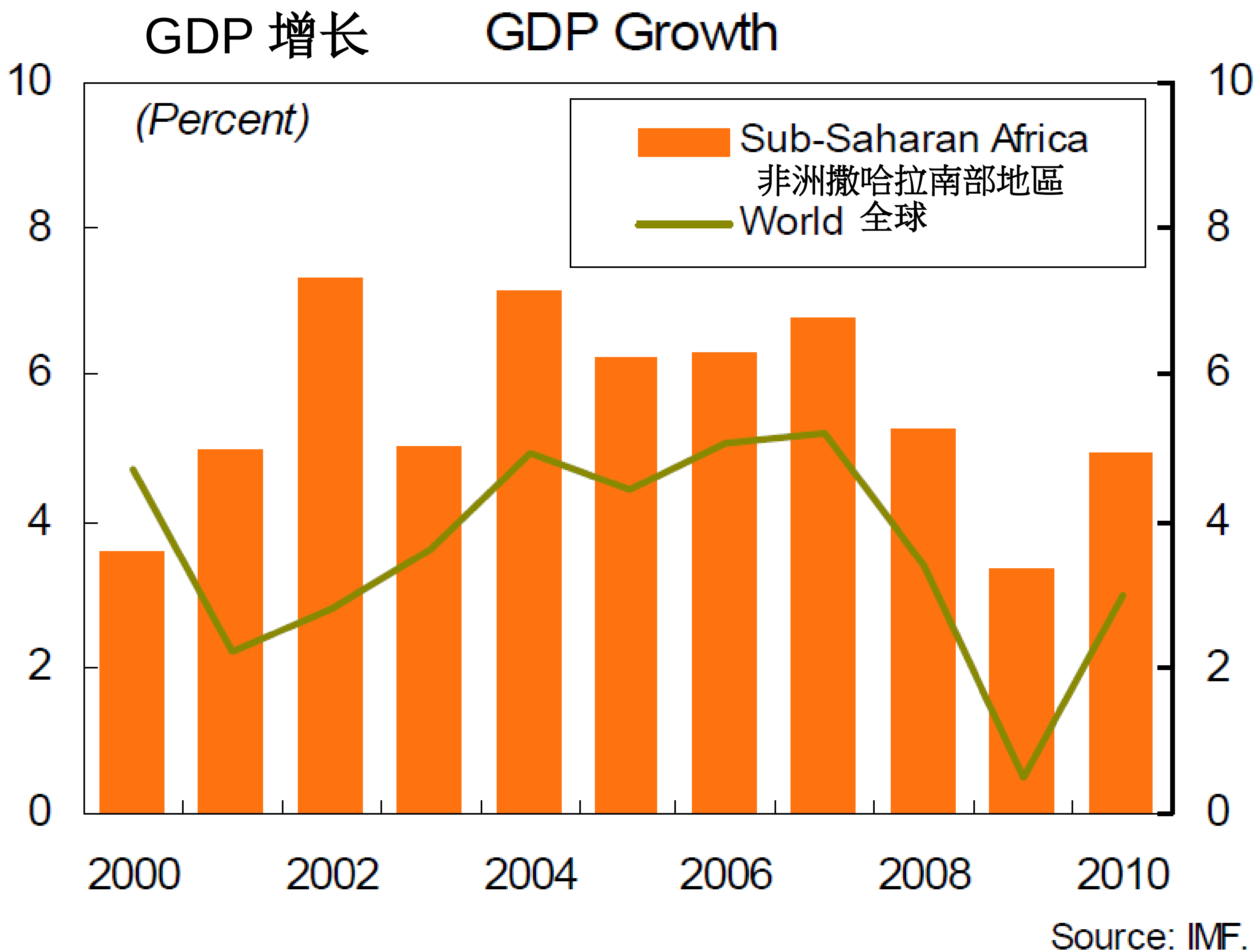


Presentation by Antoinette Sayeh on “The Global Crisis and Sub- Saharan Africa”, African Department, IMF , Feb 4, 2009.

全球不同国家地区的经济增长预测 (实质GDP增长率),
Projections of Economic Growth in Various Countries and Areas
(real GDP growth, in percent change)

	2007	2008	2009	2010
实际增长率	Actual	预测 Projected		
World	5.2	3.4	0.5	3.0
United States 美国	2.0	1.1	-1.6	1.6
Advanced Economies 发达经济体	2.7	1.0	-2.0	1.1
Emerging Economies 新兴经济体	8.3	6.3	3.3	5.0
European Union 欧盟	3.1	1.3	-1.8	0.5
Euro Area 欧元区	2.6	1.0	-2.0	0.2
France 法国	2.2	0.8	-1.9	0.7
Germany 德国	2.5	1.3	-2.5	0.1
Italy 意大利	1.5	-0.6	-2.1	-0.1
Spain 西班牙	2.4	-0.3	-2.6	0.6
United Kingdom 英国	3.0	0.7	-2.8	0.2
Non-EU advanced 非欧盟发达国	4.6	1.9	-2.4	2.2
Japan 日本	2.4	-0.3	-2.6	0.6
Canada 加拿大	2.7	0.6	-1.2	1.6

Source: World Economic Outlook, Update, the International Monetary Fund, January 2009 Quoted in James K Jackson, *The Financial Crisis: Impact and Response by the European Union*, Washington DC: Congressional Research Services, March 9, 2009



Source: Presentation by Antoinette Monsio Sayeh on "The Global Crisis and Sub- Saharan Africa", African Department, IMF, Feb 4, 2009.

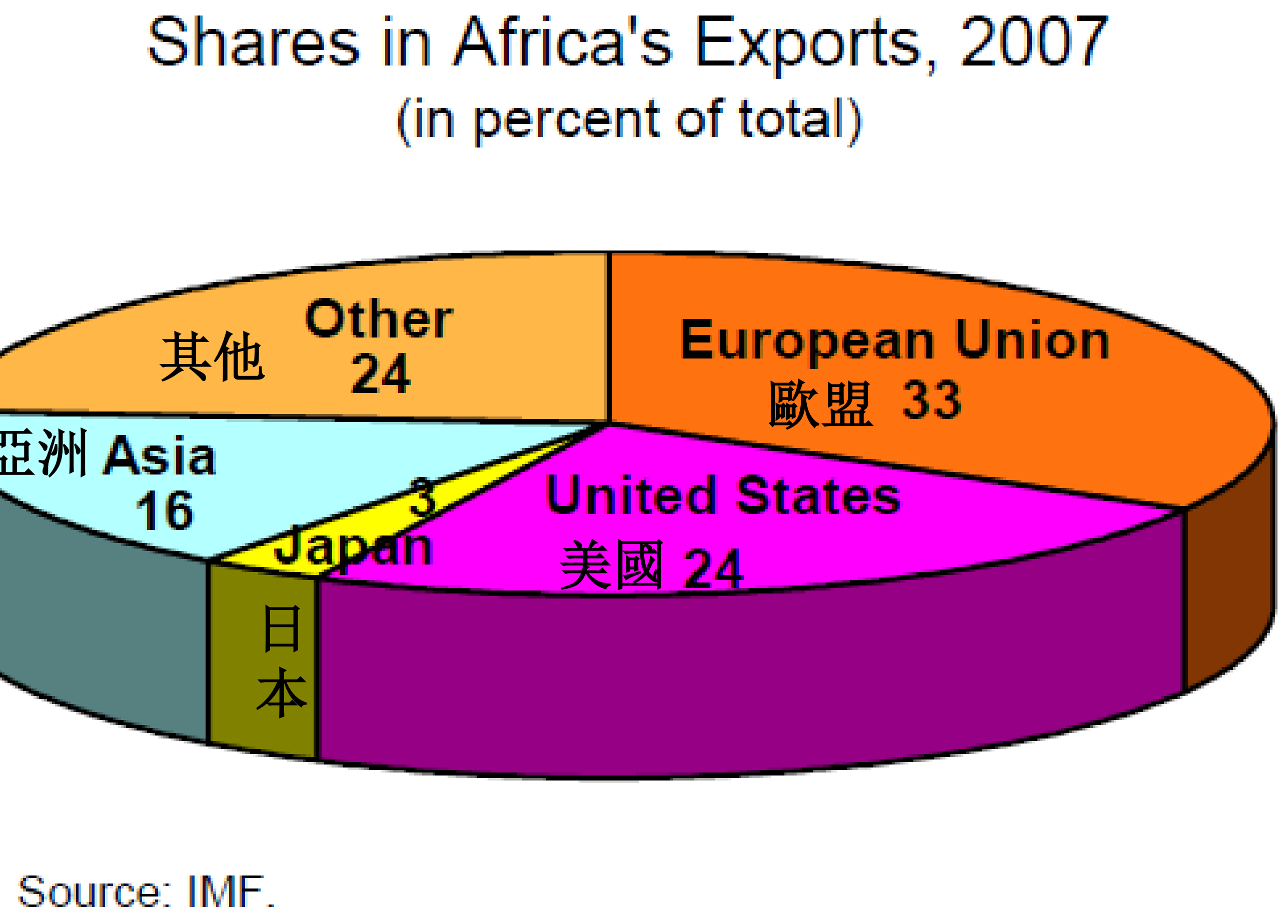
各政府的财政支持方案（十亿美元）

Selected Government Financial Support Actions (in billions of U.S. dollars)

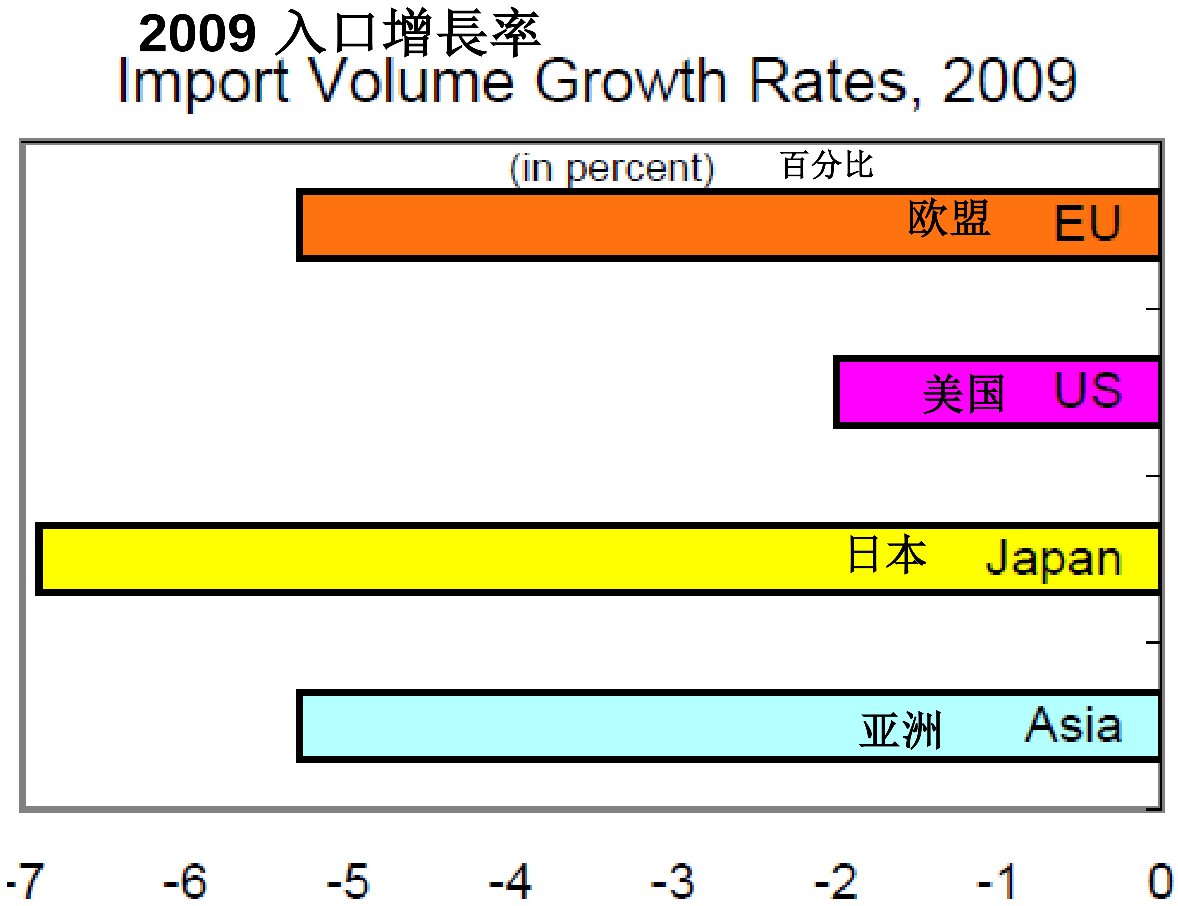
		银行担保 **Bank Guarantees**	注资 **Injections Capital**	购入资产 **Purchases of Assets**	其他 **Other**
英国	United Kingdom	$450	$90		$349
美国	United States	1,400	250	450	198
奥地利	Austria	127	23		
比利时	Belgium		7	4	
法国	France		62		400
德国	Germany	600	190		
希腊	Greece	23	8		
爱尔兰	Ireland	Banks' wholesale debt			
荷兰	Netherlands	300	70		
葡萄牙	Portugal	30			
西班牙	Spain	150		75	
挪威	Norway			60	
瑞典	Sweden	214			
瑞士	Switzerland		5	60	
加拿大	Canada	Banks' wholesale debt		26	
丹麦	Denmark	Banks' wholesale debt			
冰岛	Iceland	Nationalization of Glitner, Landsbanki, and Kaupthing Banks			
澳大利亚	Australia	Banks' wholesale debt		7	
韩国	South Korea	100	1	1	
总额	Total dollars	$5,269	711	1,357	1,357

Source: The Bank of England. *Financial Stability Report*, Oct 2008, p. 33, quoted by Dick Nanto, et.al., The U.S. Financial Crisis: The Global Dimension with Implications for U.S. Policy, Washington DC: Congressional Research Services Report， October 2008

2007 非洲出口市場分佈 （总数之百分比）



非洲外需下降
Lower External Demand for Africa



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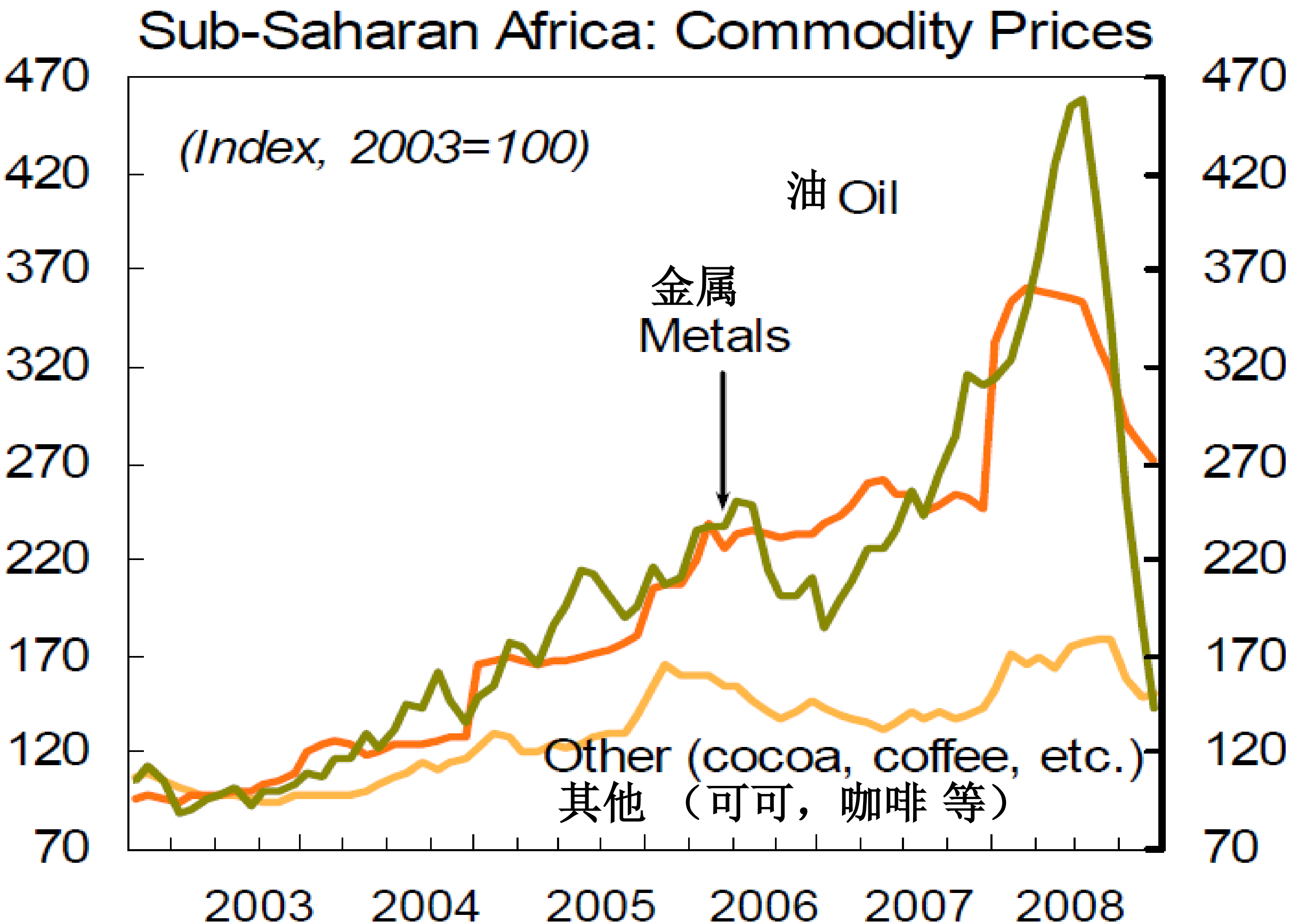
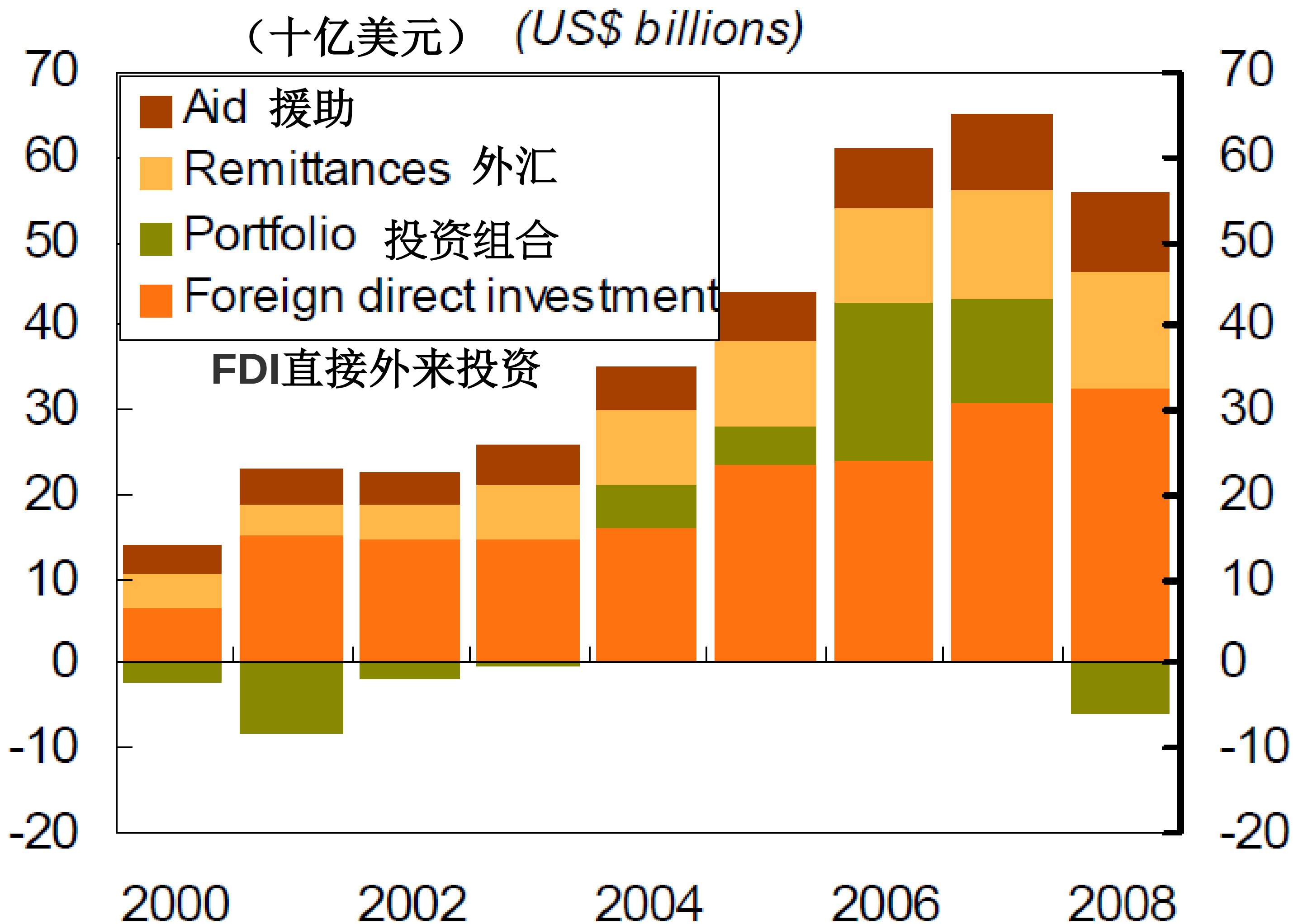
非洲撒哈拉南部地區： 商品价格



Sources: IMF and UN Comtrade.

Presentation by Antoinette Sayeh on "The Global Crisis and Sub-Saharan Africa" African Department, IMF, Feb 4, 2009.

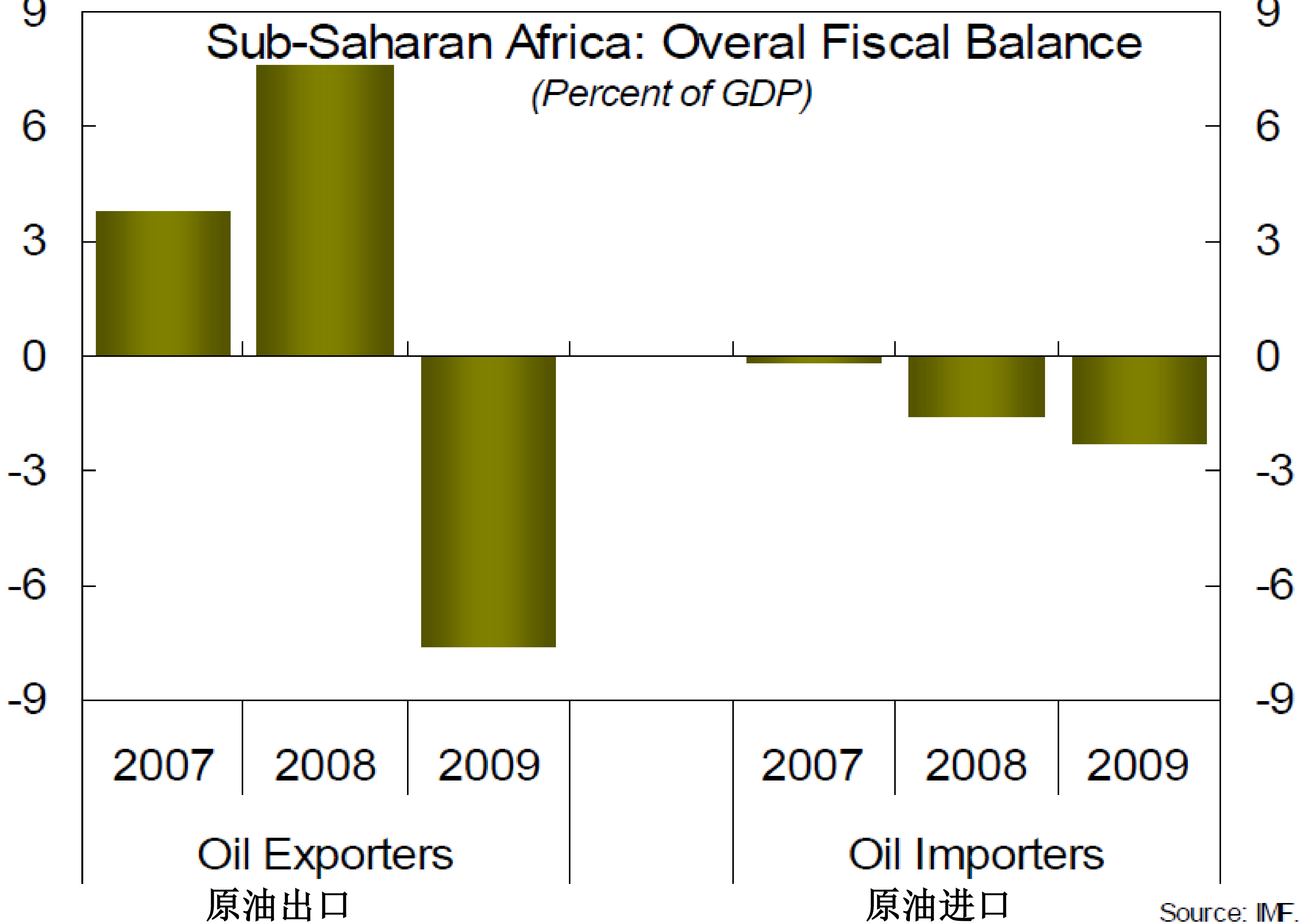
非洲撒哈拉南部地區： 金融資金流入
Sub-Saharan Africa: Financial Inflows



Source: IMF.

Source: Presentation by Antoinette Sayeh: “The Global Crisis and Sub- Saharan Africa”, African Department. IMF, Feb 4, 2009.

非洲撒哈拉南部地區：整体财政餘额　（GDP百分比）



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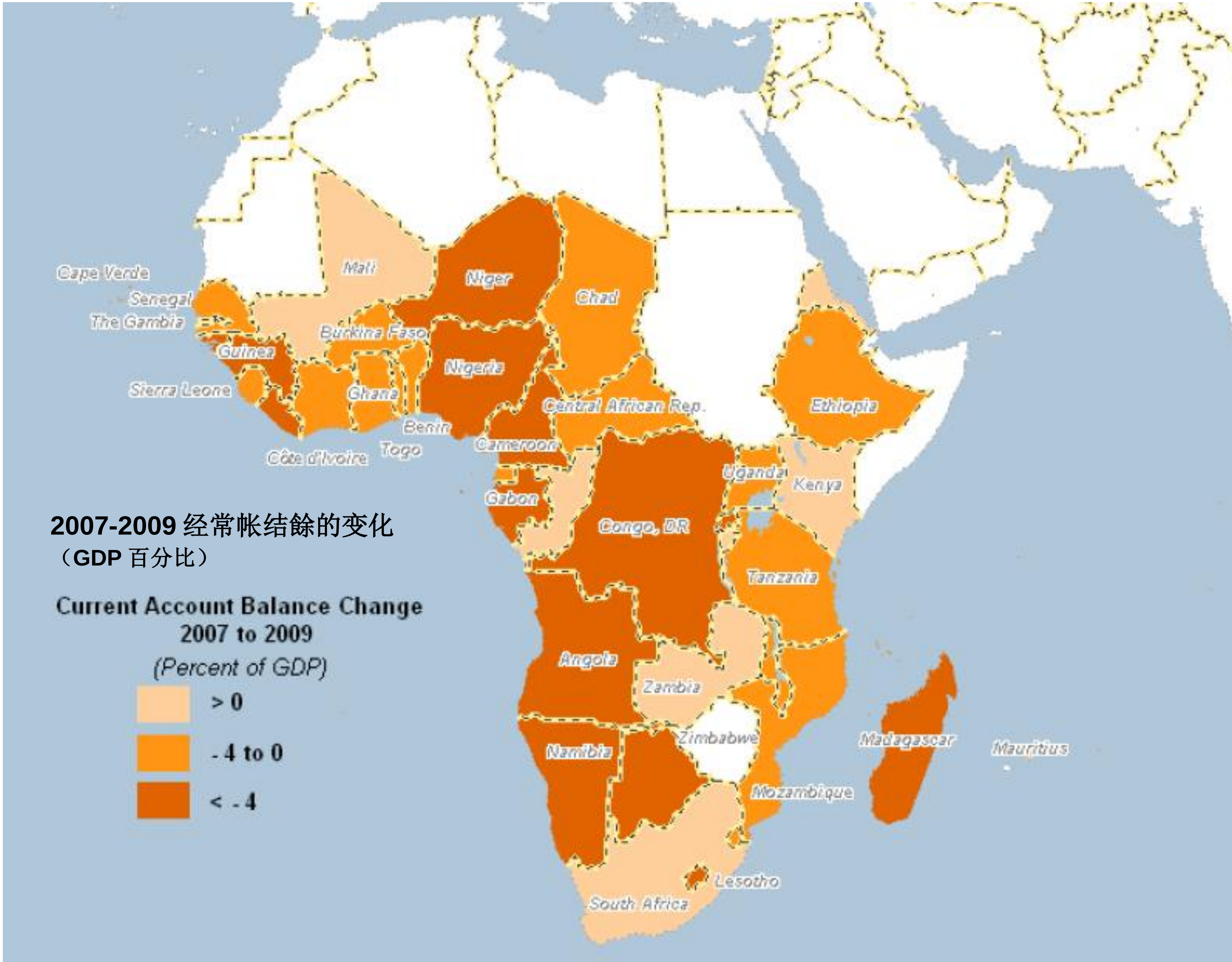

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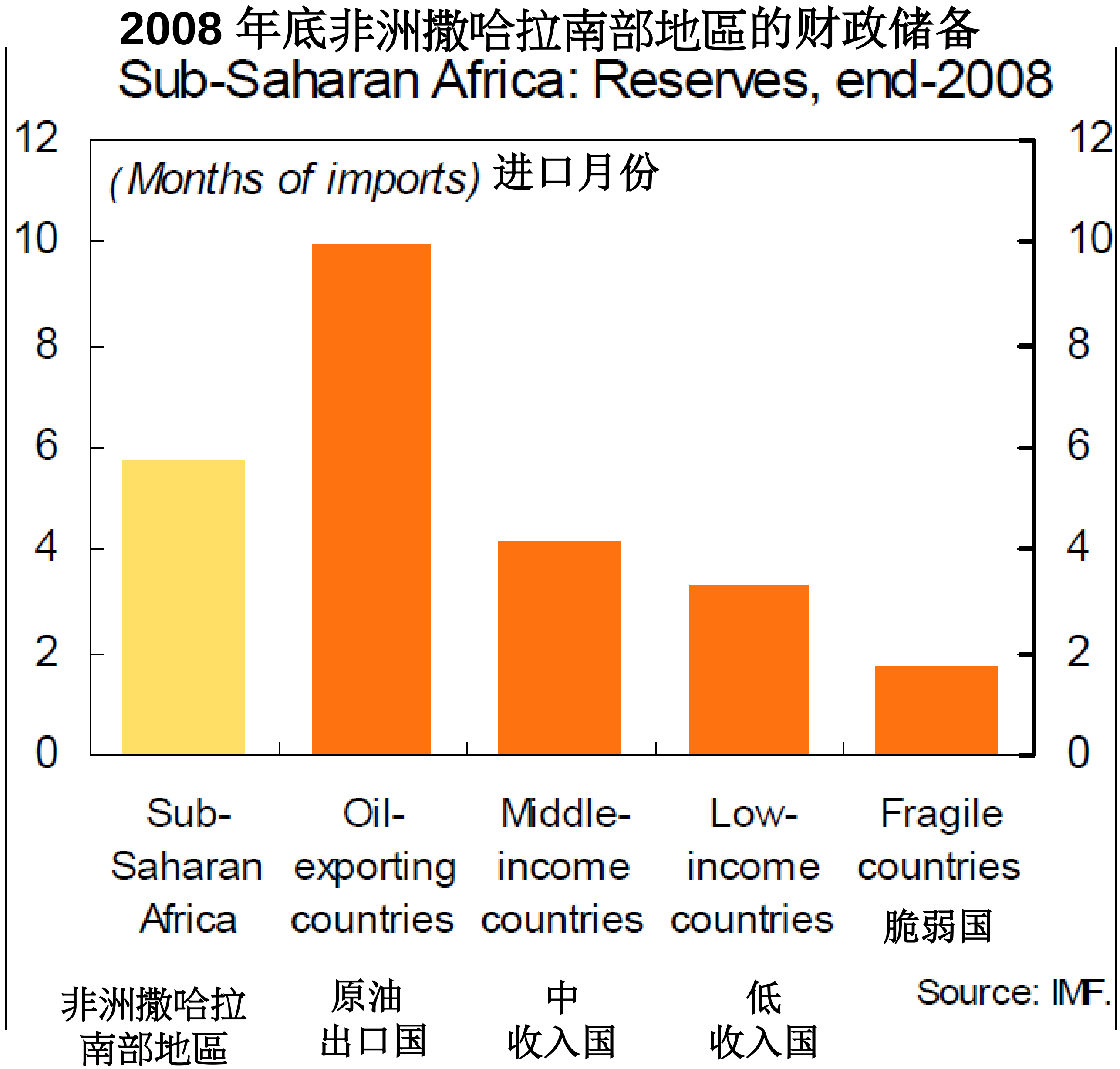

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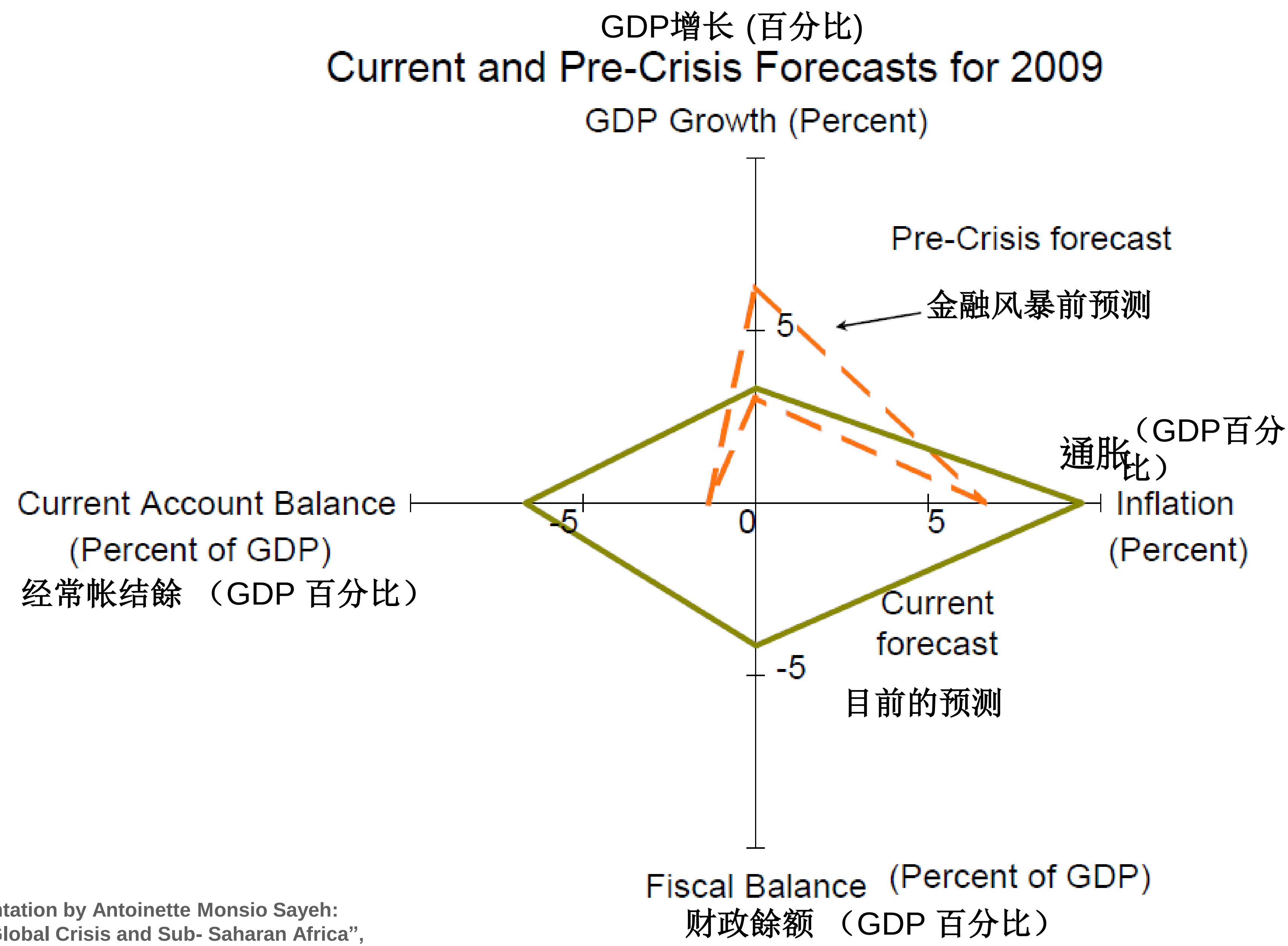
目前和金融风暴前对2009年的经济增长预测



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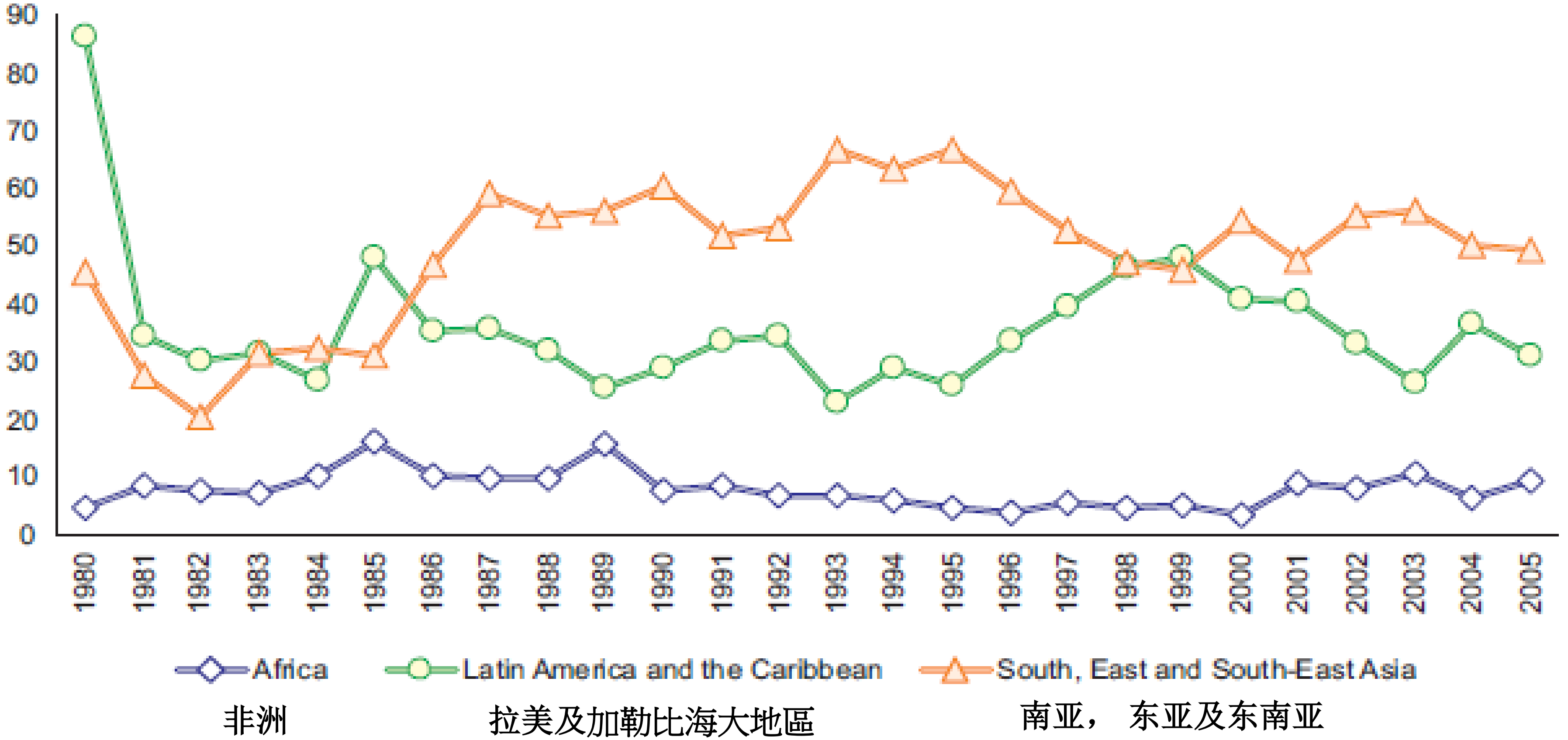
African Department, IMF, Feb 4, 2009.

非洲和部分发展中经济体的直接外来投资（FDI)
1980-2005 （百分比）

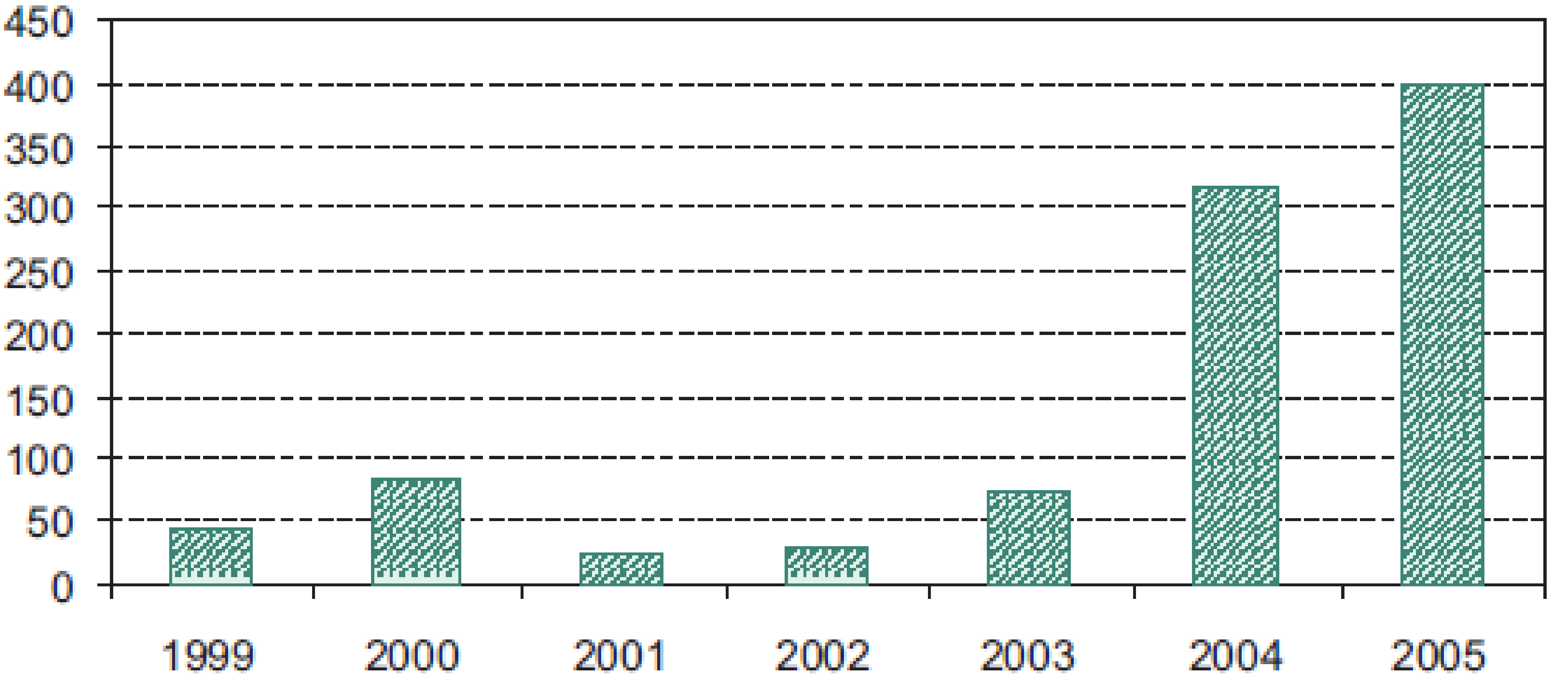
Share of Africa and selected regions in developing economies' FDI inflows, 1980-2005 (per cent)



Source: UNCTAD, FDI/TNC database www.unctad.org/fdistatistics in *Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries,* UNCTAD, 2007, p.12

中国在非洲的直接投资， 1999-2005 （百万美元）

China's FDI outflows to Africa,1999-2005 (Millions of dollars)

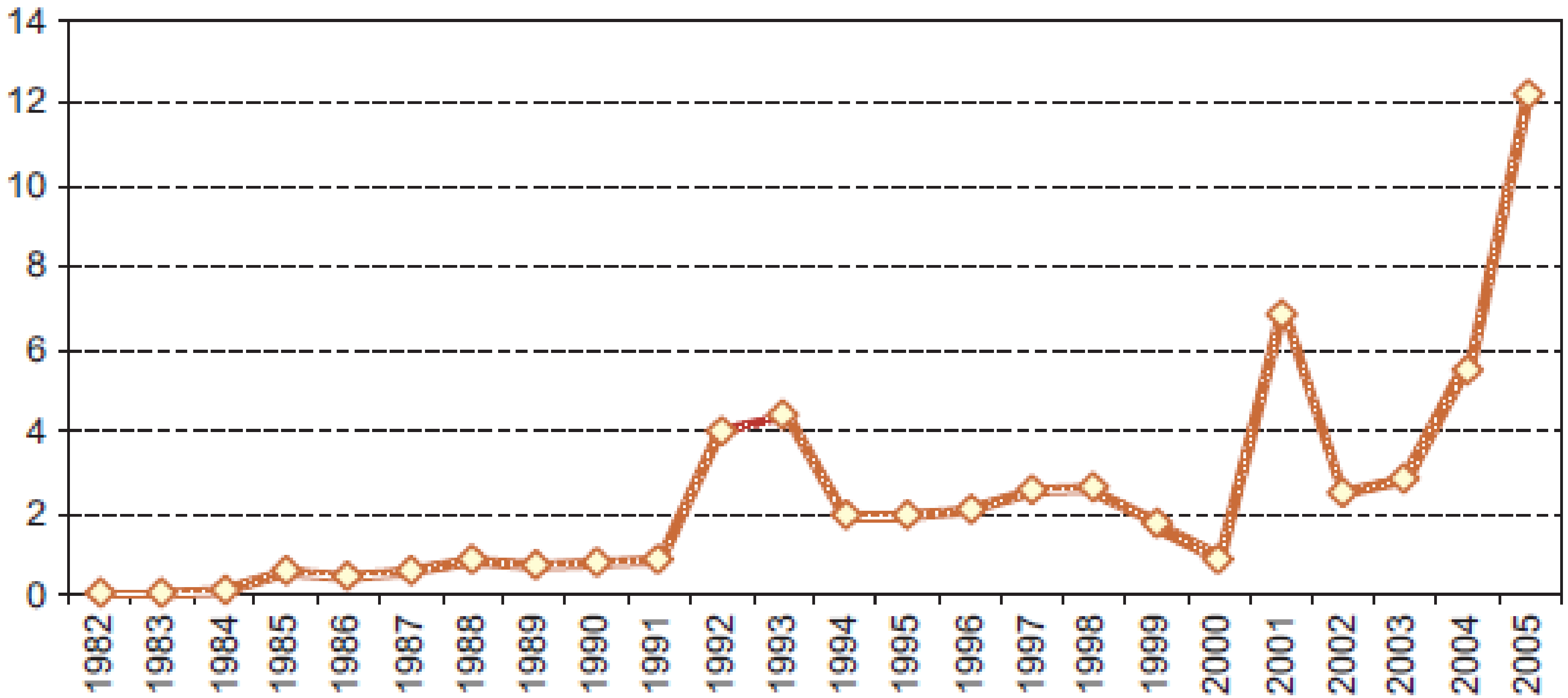


Source: UNCTAD, based on MOFCOM. Data of 1999-2002 are on an approval basis; data of 2003-2005 are on a BOP basis, *Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries,* UNCTAD, 2007, p.52

中国对外直接投资， 1982-2005（十亿美元）

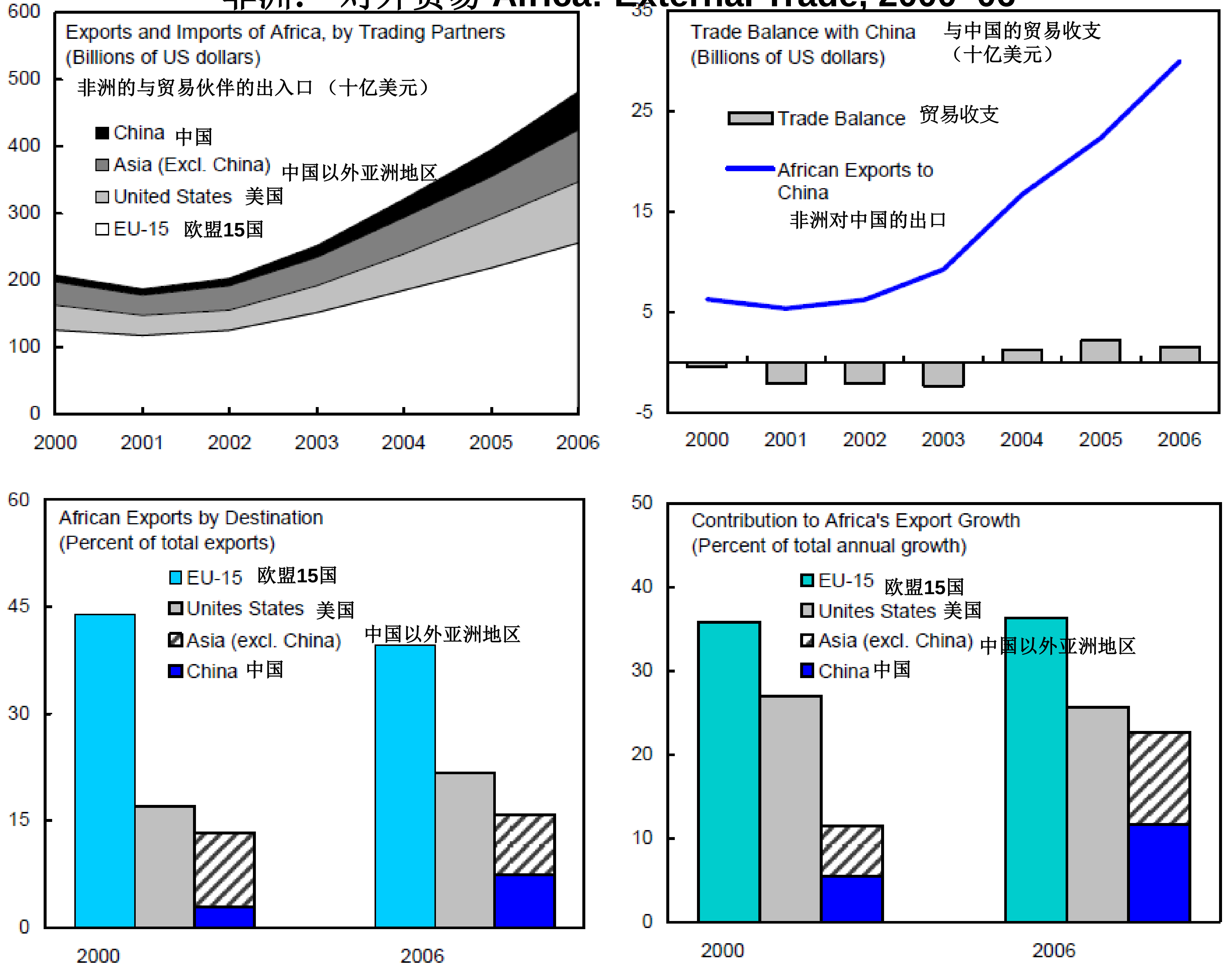
FDI outflows from China, 1982-2005

(Billions of dollars)



Source: UNCTAD, based on SAFE for 1982-2002 and MOFCOM for 2002-2005, ***Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries,*** UNCTAD, 2007, p.52.

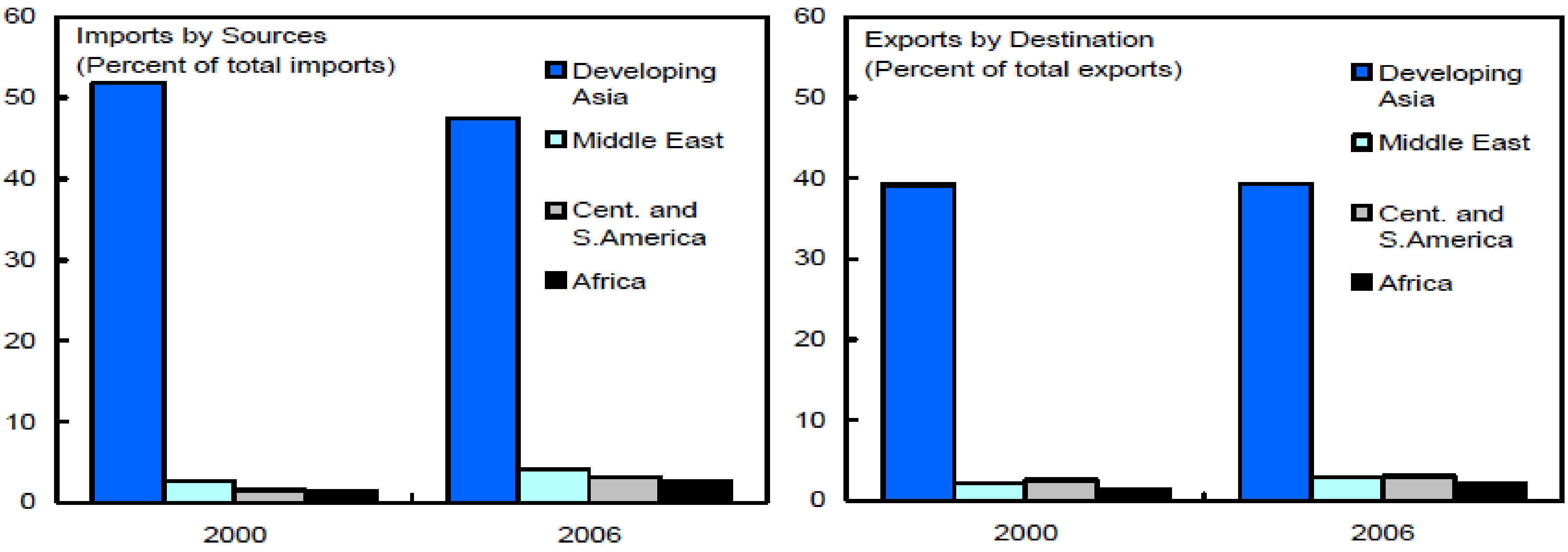
非洲： 对外贸易 Africa: External Trade, 2000–06



Sources: Jian-Ye Wang, What Drives China's Growing Role in Africa?, IMF Working paper 07/211, p. 6

中国外贸市场的分布， 2000 和 2006

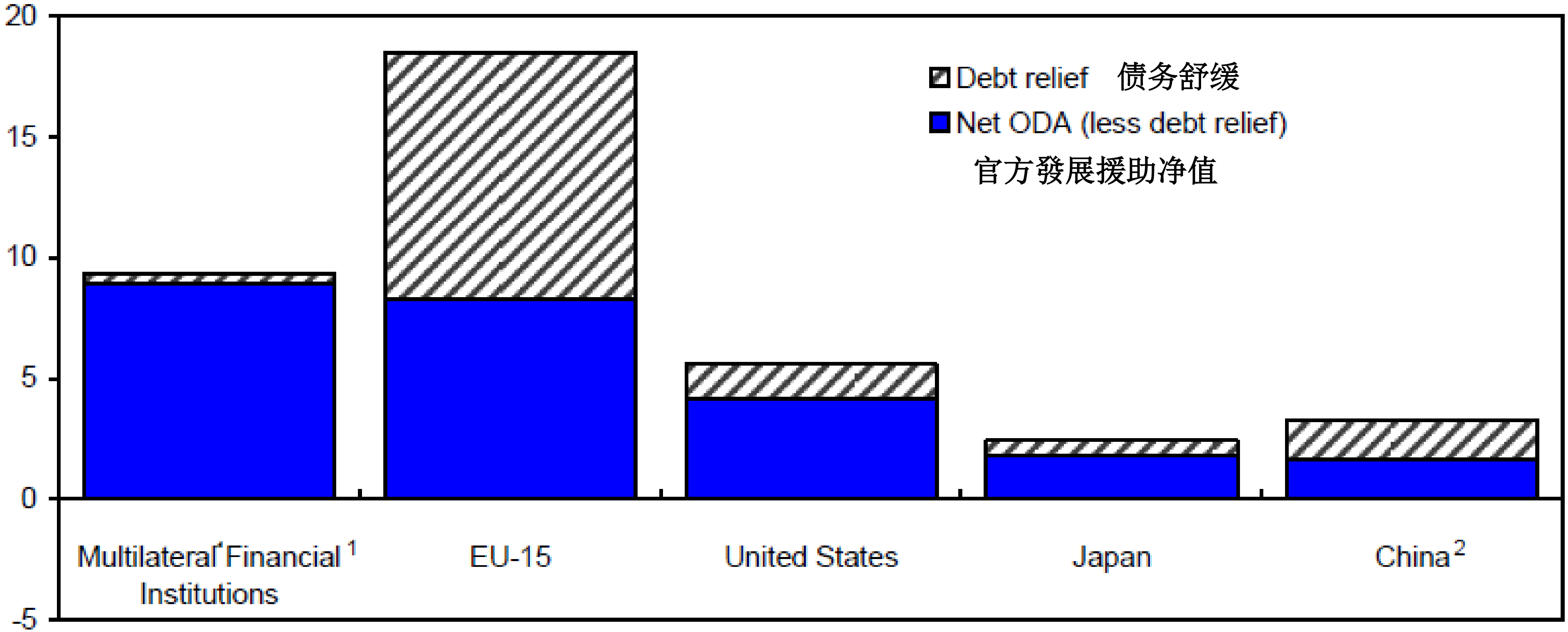
Geographical Composition of China's External Trade, 2000 and 2006



Source: Jian-Ye Wang, What Drives China's Growing Role in Africa?, IMF Working paper 07/211, p. 8

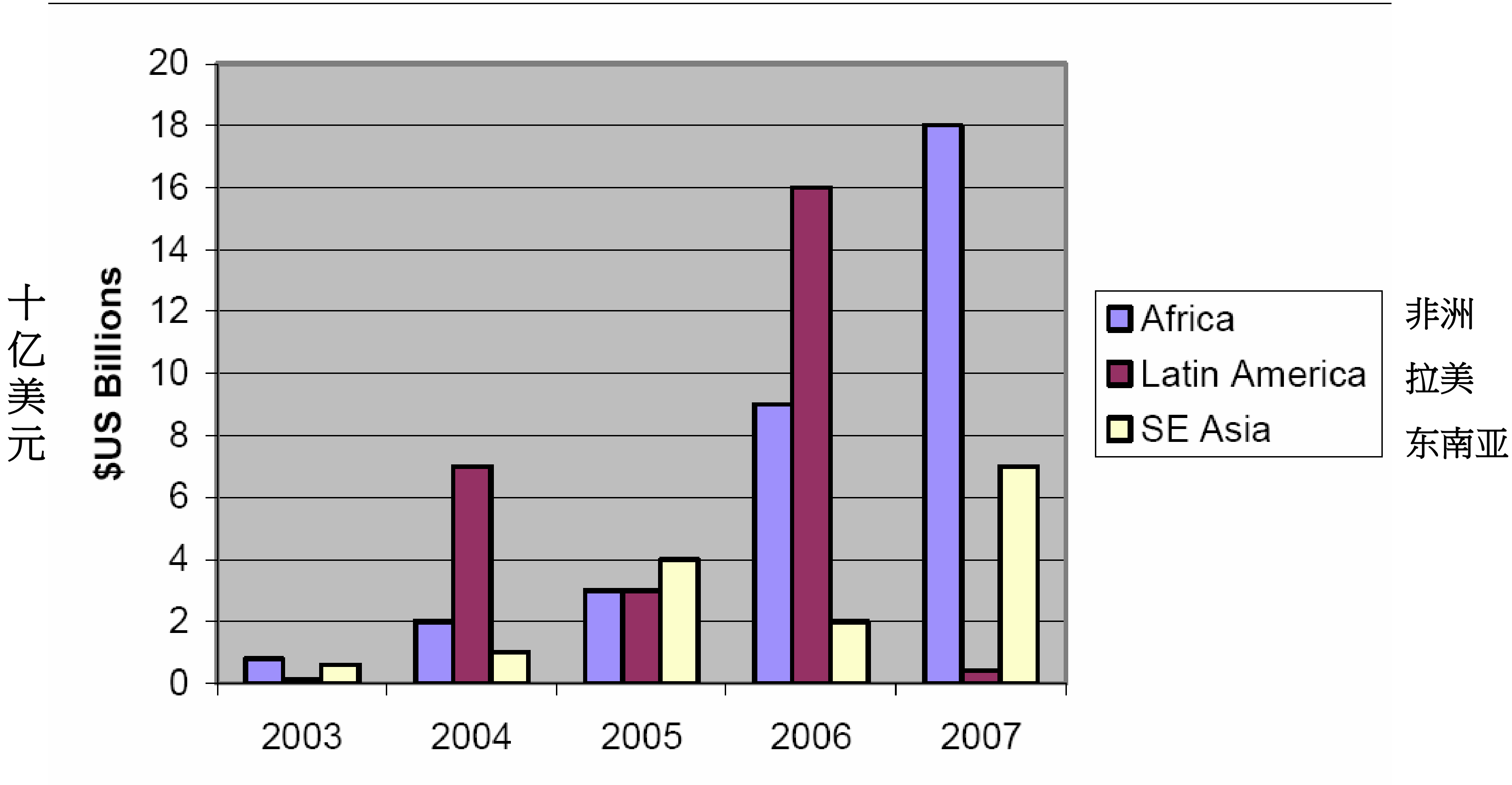
主要援助国对非洲撒哈拉南部地區的官方發展援助，2006 （（十亿美元）

Official Development Assistance to Sub–Saharan Africa by Major Donors, 2006 (Billions of US dollars)



Sources: Jian-Ye Wang, *What Drives China's Growing Role in Africa?,* IMF Working paper 07/211, p. 9
The figures are compiled by Jian Ye Wang from OECD/DAC; and National Bureau of Statistics of China.
1. Multilateral institutions include the World Bank, the International Monetary Fund, and the African Development Bank. These institutions delivered significant debt relief in 2000–05.
2. Wang's estimate for 2005, assuming that 50 percent of the value of contracted projects is ODA (including technical assistance and aid in kind). Contracted projects reported by the National Bureau of Statistic of China include projects financed by the Chinese government under its foreign aid program. Debt relief includes all interest-free loans that had matured by the end of 2005, as announced by the Chinese government in November 2006.

2003-2007 中国对外援助估计
Reported PRC Aid by Year and Region, 2003-2007



Source: NYU Wagner School, Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America, April 25, 2008. Notes: Annual totals represent announced loans and other reported aid and economic projects using PRC financing. FoomThomas Lum, et. al., *China's Foreign Aid Activity in Africa, Latin America and Southeast Asia*, Congressional Research Services Report, Feb 2009.

2003-2007 中国对外援助估计

Reported PRC Aid by Year and Region, 2002-2007

百方美元 (Million US$)

	Africa 非洲	Latin America 拉美	Southeast Asia 东南亚
2002	10	4	36
2003	838	1	644
2004	2,292	7,000	1,193
2005	2,953	2,931	4,221
2006	9,088	16,425	2,004
2007	17,962	401	6,735

Source: NYU Wagner School, Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America, April 25, 2008. Notes: Annual totals represent announced loans and other reported aid and economic projects using PRC financing. FoomThomas Lum, et. al., *China's Foreign Aid Activity in Africa, Latin America and Southeast Asia*, Congressional Research Services Report, Feb 2009.

Policy Responses to the Global Financial Crisis: Trade credit

John Humphrey

Research Fellow, IDS

Over the past two decades, countries in sub-Saharan Africa have been encouraged to take advantage of the opportunities opened up by globalisation and export non-traditional agricultural products and labour-intensive manufactures. How will these industries fare in the face of a global crisis?

In October-November 2008, the World Trade Organisation, International Trade Centre and International Chamber of Commerce all raised serious concerns about trade finance (ICC, 2008; WTO 2008). They highlighted declining trade, substantial falls in trade credit, increasing lending costs and credit rationing. Shortly after, the Governments of Brazil and India stepped in to guarantee trade finance for exporters. In this situation, will African exporters find that neither their customers nor their banks provide them with trade finance?

How unprecedented is this problem?

Trade credit is far removed from the exotic financial products that have undermined global banking, but previous financial crises that hit developing countries (such as Argentina, Brazil and Indonesia) were all associated with rapid and significant cutbacks in trade credit. Short-term finance dried up as financial institutions reduced their risk exposure. Finance for trade can be cut back in three ways (see Box 1).

Box 1. How might trade finance be harder to obtain in the current crisis?

- Banks in developing countries cut lending to exporters.
- Letters of Credit (LCs) become harder to obtain.
- Trade credit offered by importers to their developing country suppliers may be restricted if the importers themselves cannot borrow from their banks (see Love et al. 2007).

In these circumstances, firms in developing countries that have been encouraged to target export markets find themselves unable to trade. **Box ends**

Evidence from the financial crises of the 1990s shows that credit lines for trade fell more rapidly during financial crises than had been the case in the 1980s. Wang and Tadesse (2005) attribute this to banks increasing their leverage and having increased risk exposure. Since then, leverage has increased, and given the current freeze on credit globally and fears about recession worldwide, trade credit may be greatly reduced. Nevertheless, the likely impacts on capacity to export are far from clear. Ronci (2005) notes that in previous financial crises substantial declines in short-term capital availability in crisis countries was very weakly associated with declines in exports.

Are cutbacks in trade credit hurting exporters in sub-Saharan Africa?

IDS arranged for researchers in the UK and Kenya to telephone 25 firms in sub-Saharan Africa and inquire about how they financed their exports and whether the availability of trade finance had changed. They also contacted international trade experts and UK importers. The focus was on horticulture and garments – two sectors that have seen big export increases in the past decade. The overall findings were clear. The capacity of these firms to continue exporting was not being affected by cutbacks in credit, either from their customers, the international banking system (LCs) or domestic banks. Why not?

- Established businesses remain good risks for domestic banks. The horticulture sector in sub-Saharan Africa was considered a good risk by local banks and lending continued. However, in Latin America, the trade finance crisis is much more severe and horticulture exporters are having serious problems. So far, sub-Saharan Africa has escaped the worst problems.

- Firms are operating in well-established value chains. Even horticulture firms supplying wholesale markets in Europe had well-established relationships with their importers and establish lines of trade finance. Very often, these transactions involve no credit from financial institutions.

- Garment exporting companies in sub-Saharan Africa are predominantly Asian-owned. LCs for exporting to the United States (the main export destination) are usually arranged by the parent company. None of the firms interviewed indicated that this had been affected. These firms did not use domestic credit lines for export finance, and availability of domestic credit for working capital has not changed.

- Trade finance shortages and restrictions on domestic credit are affecting new exporters, small-scale cooperatives and other enterprises that do not have established relationships with their banks and with their customers.

Nevertheless, clear and substantial impacts from the global financial crisis were found. In particular:

- Exchange rate volatility. In particular, firms exporting to the UK were suffering as revenue is priced in British pounds, but airfreight and many inputs are priced in dollars.

- Falling demand. In garments, the exporters from Africa are still completing orders negotiated in mid-2008, but the companies reported that buyers were delaying new orders and pushing for much lower prices. Horticulture producers were concerned about possible falls in demand and downward pressure on prices.

Policy responses

In the short term, the availability of trade credit needs to be monitored. The trade finance problem varies greatly between sectors and countries. Governments and multilateral development banks should step in, as in previous financial crises, to sustain trade finance.

In the longer term, the crisis highlights new sources of risk for exporters. In both garments and horticulture, African exporters have done well from linking up to large customers in dynamic market segments. In the crisis, these customers are transferring the risks and consequences of turbulence and unpredictable markets to their suppliers. Prices and quantities are adjusted rapidly because of the power of retailers in increasingly concentrated retail markets. The problem is not trade finance, but rather the profitability of exporting.

Acknowledgements

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CHINA AFRICA TWO-WAY TRADE – RECENT DEVELOPMENTS

Discussant: Mark George, Policy Analyst, DFID China

1. No one who is paying any attention to the relationship between China and Africa doubts that China is now a major player in Africa. Trade is the largest dimension of the economic relationship. In 2008, China and Africa have surpassed the target of $100 billion which they both set in 2006 when total trade was $55 billion. This target has been reached two years earlier than either planned.

2. The rate of growth has been impressive. Two-way trade increased by 32% between 2006 and 2007. Using ten months of actual data for 2008, we estimate that it will increase by 50% between 2007 and 2008, reaching a figure of $110 billion, with a small surplus in favour of Africa.

3. Of course the financial crisis is going to impact on trade flows, but China Africa trade looks pretty robust, not least because it tends to be concentrated in oil, mineral products, wood, cotton, iron and steel products, diamonds, ferro manganese, copper and tobacco. These commodities and products are in fairly inelastic demand in China.

4. On the other side, China's exports to Africa consist mostly of light industrial products, textile products, clothes, electronic products and consumer goods. Depending upon how the financial crisis plays out in Africa, it is probably reasonable to assume that there will be some slowing in the growth of exports from China to Africa. China's currency has followed the dollar as its value has increased, there might be some price disadvantages for Chinese exporters, but they have also gained from large falls in the price of their inputs. We estimate that aggregate two-way trade in 2009 is likely to increase again, but not at the rates witnessed between 2006 and 2008.

5. A closer look at the trade statistics reveals an interesting story behind the headline figures. Using data from China's Ministry of Commerce, it is evident that much of the growth in trade is heavily concentrated in a number of countries.

China Africa trade in more detail

6. In 2008, 25% of total two-way trade between China and Africa was with one country – Angola. Nothing has changed since 2006. Angola was China's largest trading partner in Africa accounting for 21% of trade in 2006 and number one again in 2007 accounting for 19% of trade. South Africa was the second largest trading partner between 2006 and 2008, accounting for 18% in 2006, 19% in 2007 and 16% in 2008. Rankings for the top ten trading partners are shown in the table below.

Table 1: Rankings for total two-way trade			
	2006	**2007**	**2008**
1	Angola	Angola	Angola
2	South Africa	South Africa	South Africa
3	Sudan	Sudan	Sudan
4	Egypt	Egypt	Nigeria
5	Nigeria	Nigeria	Egypt
6	Congo-Brazzaville	Algeria	Congo-Brazzaville
7	Equatorial Guinea	Congo-Brazzaville	Libya
8	Libya	Morocco	Algeria
9	Algeria	Libya	Morocco
10	Morocco	Benin	Equatorial Guinea
Top 5 as a % of overall	56%	58%	61%
Top 10 as a % of overall	78%	78%	79%

Source: China's Ministry of Commerce

7. Table 1 shows that, despite huge growth in the aggregate level of two-way trade, there has been considerable stability in the top ten trading partners since 2006. The top 5 countries accounted for 61% of total two-way trade in 2008, with the top 10 accounting for 79%. The data suggests that there has been a small increase in the concentration of trade amongst the top ten trading partners compared to 2006.

8. Table 2 shows trading partners ranked by the largest exporters to China between 2006 and 2008. This table shows that in 2008 79% of all exports from Africa came from just 5 countries. In the same year 93% of exports came from 10 countries. The ranking of exporters has been pretty stable between 2006 and 2008, with little movement within the top 10 and not much change in terms of positions.

Table 2: Ranking of African exporters to China			
	2006	**2007**	**2008**
1	Angola	Angola	Angola
2	South Africa	South Africa	South Africa
3	Congo-Brazzaville	Sudan	Sudan
4	Equatorial Guinea	Congo-Brazzaville	Congo-Brazzaville
5	Sudan	Equatorial Guinea	Libya
6	Libya	Libya	Equatorial Guinea
7	Gabon	Algeria	Gabon
8	Mauritania	Gabon	DRC

9	DRC	Mauritania	Mauritania
10	Morocco	Nigeria	Algeria
Top 5 as a % of overall	77%	78%	79%
Top 10 as a % of overall	90%	91%	93%

Source: China's Ministry of Commerce

9. Table 3 below shows trading partners ranked by their level of imports from China between 2006 and 2008. The table shows the continuing importance of South Africa, Egypt, Nigeria and Algeria as markets for China. It also shows the growing importance of Angola. The top five countries account for around 55% and the top 10 countries for 75% of all exports from China to Africa.

Table 3: Ranking by exports from China			
	2006	**2007**	**2008**
1	South Africa	South Africa	South Africa
2	Egypt	Egypt	Nigeria
3	Nigeria	Nigeria	Egypt
4	Algeria	Algeria	Algeria
5	Morocco	Morocco	Angola
6	Benin	Benin	Morocco
7	Sudan	Sudan	Benin
8	Angola	Togo	Sudan
9	Ghana	Angola	Ghana
10	Libya	Ghana	Libya
Top 5 as a % of overall	57%	55%	55%
Top 10 as a % of overall	76%	75%	75%

10. So what can we conclude from the above tables? The main points are that in spite of a doubling in trade between China and Africa:

- There has been no really dramatic change in the relative importance of different countries. South Africa along with Angola remain the pre-eminent trading partners. Sudan has become an important source of imports from Africa, Egypt remains an important export market.
- The big exporters from Africa in 2006 remain the big exporters in 2008. They accounted for 93% of all exports from Africa in 2008.

<u>So what has happened to the other countries?</u>

11. Countries like Malawi, Kenya and Tanzania are never likely to eclipse the big commodity exporters of Africa, but it will be important for countries like these to feel that they are benefiting from export opportunities to China. Annex 1 shows the growth rate in exports between 2006 and 2008 for the 53 countries in Africa that trade with China. This annex shows that:

- although total exports from Africa to China increased by 110% between 2006 and 2008, 16 countries have seen their exports decline, including countries such as Uganda, Tanzania and Ethiopia;

- five countries have seen no virtually growth in exports, including Sierra Leone;

- fifteen countries have seen their exports increase, but below the rate of growth for the continent as a whole, these include Kenya, Ghana, and Mozambique; and

- sixteen countries have seen their exports grow faster than the average for Africa as a whole, including DRC, Sudan, Malawi and Zambia. Many of these are commodity exporters but a small number are not.

Conclusion

12. In November this year, the 4th China Africa Summit in Egypt will bring China and the continent of Africa together again. There will be much to celebrate. Many of the commitments made in Beijing at the 3rd China Africa Summit will have been delivered, a number of them ahead of schedule, particularly those related to trade. Whilst the overall trade target of $100 billion by 2010 will be given wide attention, it will be important for African and Chinese leaders to keep focused on those countries that have yet to really capitalise on export opportunities to China. Indeed there are a number of countries where exports have declined, despite increases in trade preferences from China.

ANNEX 1

Annex 1: Growth of exports to China from:		2006	2008*
Country	Percentage increase	$ million	$ million
Botswana	2300%	8.0	192.0
Algeria	482%	143.0	832.8
Malawi	380%	1.0	4.8
Seychelles	380%	1.0	4.8
DRC	340%	368.0	1,618.8
Sudan	243%	1,943.0	6,658.8
Liberia	200%	2.0	6.0
Madagascar	190%	24.0	69.6
Mauritania	170%	402.0	1,087.2
Central Africa	153%	9.0	22.8
Cameroon	150%	200.0	499.2
Gabon	135%	817.0	1,916.4
South Africa	133%	4,088.0	9,512.4
Angola	126%	10,933.0	24,721.2
Zambia	122%	270.0	600.0
Egypt	118%	217.0	474.0
Simple Average	**110%**	**28,800.0**	**60,590.0**
Nigeria	106%	278.0	573.6
Guinea-Bissau	100%	0.6	1.2
Tunisia	100%	51.0	102.0
Guinea	90%	12.0	22.8
Libya	81%	1,694.0	3,058.8
Mozambique	79%	80.0	142.8
Namibia	76%	122.0	214.8
Kenya	55%	24.0	37.2
Togo	53%	22.0	33.6
Congo-Brazzaville	46%	2,791.0	4,078.8
Benin	46%	89.0	129.6
Morocco	38%	359.0	495.6
Ghana	38%	80.0	110.4
Rwanda	36%	22.0	30.0
Zimbabwe	24%	139.0	172.8
Lesotho	20%	1.0	1.2
Equatorial Guinea	4%	2,538.0	2,631.6
Cape Verde	0%	0	0
Comoros	0%	0	0
SaoTome and Principe	0%	0	0
Sierra Leone	0%	6.0	6.0
Uganda	-10%	20.0	18.0

Mauritius	-14%	7.0	6.0
Tanzania	-15%	153.0	130.8
Eritrea	-20%	3.0	2.4
Mali	-34%	114.0	75.6
Annex 1: Growth of exports to China from:		2006	2008*
Country	Percentage increase	$ million	$ million
Cote-d'Ivoire	-40%	125.0	74.4
Ethiopia	-44%	132.0	74.4
Senegal	-47%	9.0	4.8
Swaziland	-47%	25.0	13.2
Gambia	-60%	9.0	3.6
Djibouti	-60%	3.0	1.2
Burkina Faso	-61%	193.0	74.4
Chad	-82%	260.0	48.0
Burundi	-94%	2.0	0.1
Niger	-99%	10.0	0.1
Somalia	-99%	3.0	0.0

*Estimated on the basis of 10 months of actual data

Source: Trade data from China's Ministry of Commerce

China and Financial Crisis- Implications for Low Income Countries

Li Xiaoyun

Dean and Professor, School of Humanities & Development, China Agriculture University

Almost every participant here is speaking English and little voice in Chinese was heard. Anyway, since simultaneous interpretation services are provided here and I would like to speak Chinese in order to balance this situation so that the device can be used. Now please put on your headphones and listen to the interpretation.

Hereby, I would like to address several points concerning the impact of the financial crisis on China, and to further discuss its following effect on China's aid and cooperation programs in Africa.

First of all, I think that this topic can be brought into discussion but relevant empirical information is still lacking, as is addressed clearly by Mr. Xue Lan and Miss. Gu Jing just now. I have been closely following Africa and participating in aid projects to African countries. And during this period, I have obtained large amount of data from the African embassy and some local governments, which, however, cannot be revealed here. From my point of view, a great challenge exists these days , which Miss. Gu Jing has just said too, is that we are still lacking in sorted data about the historical evolution. And this makes it difficult for us to conduct a deeply study on China's assistance to African countries.

The second difficulty lies in that such China-Africa issue is greatly politicized, which undoubtedly makes the studies of the scholars in our country be consistent with that of the government. The relevant scholars are always saying that China's aid is good for it helps African people in one way or another. Thus there is a lack of political environment in our country. When I was at a previous conference in which most of you didn't take part except Miss. Gu Jing, my views were disapproved by the Ministry of Commerce, although I picked my words carefully for I had a good relationship with many of the officials there. Another time in an OECD (the Organization for Economic Cooperation and Development) conference, I was verbally attacked that I felt totally deflated and could do nothing to defend my views. Under that circumstance, I was at a complete loss about what to do.

From what has been addressed above, I believe this is really a problem. Nowadays we have too little information and evidence on hand to strongly support our views on studying this issue despite the fact that we have discussed a lot. And that is what I have learnt recently from relevant data, information and our opinions. I wanted to raise questions when Mr. Xue Lan was present here just now, but failed to do because everybody else here was asking questions. I am not quite sure about how us scholars could study this issue without losing our independence.

Then, let's come back to the theme of this seminar, which is about the impact of the current global financial crisis on China and the consequent impact on Africa. The discussion we had in this morning covered two aspects.

The first perspective is how the financial crisis will affect China's interests in Sino-Africa cooperation? In my opinion, China has its own interests and benefits to gain in

Africa instead of simply helping people there. It will be an interesting thing to study the impact of the financial crisis on China's own interests and benefits. How can we view China's interests in Africa, especially in these two aspects: one is raw materials and the other is markets. The African market is one of the main markets for the labor-intensive industries of China. And it's these labor-intensive industries rather than capital-intensive nor technology-intensive in China's real economy that was first and worst affected by the global financial crisis. I have seen for myself in Nigeria and many other areas in Africa and found them significantly affected in the labor-intensive industries. However, I have no data on hand now to show you what the impact lies in. It is one of the signs of the chain effect. At the same time, the steel price has decreased to a new low recently. What does this mean? What impacts will the continuing financial crisis impose on the programs China have invested and is investing now in Africa, on China's real economy, and on its demands for raw materials especially in southern Africa? One example is China's demand for copper in Zambia--the world's largest exporter of copper. Yet much to my regret I still have no reliable data to show the impact in the above aspect. But I think it's a good perspective to have a overall understanding about how the financial crisis will affect China in the long run, how it will affect Africa and how it will affect China's interests in Africa.

The second perspective is to examine the impact on China and its consequent influence on Africa and the interaction between these two aspects. Although China's interests in Africa is increasing, it is still not very big at the moment. This can be seen clearly from China's trade shares in Africa. Two vital issues facing Africa is economic growth and stability. The global financial crisis is not likely to impose great impact on African economic growth and stability through the impact from China. After all, compared to the impact on the giant economies of the United States and the European Union, the impact from China is still a small one.

I made a judgement that the global financial crisis is likely to make China adopt a new policy and attitude towards Africa in economic and trade relations. Miss. Gu Jing has just mentioned, Chinese people like to swim against the stream. That is to say, we are more likely to try something even if it involves more risks. But seen from a strategic angle, our foreign reserve is very high in these years, that is, the ratio of foreign reserve to GDP is too high, especially the low value-added industries. The exporting in industries of labor-intensive, or low value-added, are taking too large a part in our GDP. In the next 3 to 5 years, there is little possibility to maintain the current industrial structure in China by stimulating our market in well-developed countries. It is known to all that in the next 3 or 4 years changes will undoubtedly take place in our industrial structure. Under this circumstance, I analyse, our country is continuing to promote and maintain the diversification of our export markets. Although we have done well in East Asia and Southeast Asia, the development of diversified exports has great potential in Africa and Latin America. The state visit of President Hu Jintao to Africa is of great significance for it demonstrates that China will not reduce aid to Africa in spite of the financial crisis. Here are some strategic considerations in this opinion. In this consideration, the significance of China to Africa will be enhanced, and thus China will increase its investment in Africa too. In current days, you can only avoid risks in the financial market by investing in real economies. There's no other choice. Large amounts of industries in

China have been transferred to less-developed areas in Africa. Investment in Africa is greatly encouraged by the government. We all know that after the NPC (National people's Congress), there is an optimistic adjustment last week in the regulations guiding our investment in foreign countries. Enterprises can invest overseas without government authorization except those that are closely connected to national security and major political issues. As far as I'm concerned, many firms, including some agricultural ones, are now considering investing in Africa. Against the backdrop of global financial crisis, we are avoiding expensive labor by seek cheaper ones in African market when our domestic enterprises are in trouble themselves. With daily wage of 20 RMB, firms cannot find workers in Sichuan province. This is very costly.

My second judgement is that, there is an idea of setting up permanent strategic bases in Africa in Sino-Africa economic and trade relations, This is a great idea and we have found it unaffected by the crisis during negotiations about the investment in Congo.

Thirdly, economic cooperation and aid are two different things. What I just talked about is the former. There are clearly two purposes in China's aid to foreign countries, political purpose and economic purpose. China provides aid to Africa unconditionally, but still wants to gain such interests during the process. And that is different from western countries. We are concerned about whether we are in a win-win and mutually-beneficial situation. So the financial crisis will not influence our aid to Africa. Furthermore, China's aid policy such as how much funds to provide to Africa is not transparent and doesn't subject to discussions in NPC session. No one will have dissenting opinions about the continuing aid and support from our government to Africa and about the amount of aiding funds. If we provide more than 2 billion dollars, or 20 million dollars per country times 30 countries, it will still be a small amount in proportion to our total tax revenue of more than 1 trillion dollars per year.

So concerning our topic today, I don't think the impact that crisis imposed on China will then cause great impact on Africa in the following 2or 3 years. As to the situation after 3 years, I can't predict, because that is an issue involves changes in economy and other aspects. After having been the president of China, Hu jintao has paid many times of state visits to African countries, which demonstrates that our government and leaders are concerned about the international strategy in China's development. We can judge that that is a globalization strategy though we are not definitely sure. Things are no longer the same from the past. In my opinion, when we are formulating such a strategy, we can take Africa as a permanent partner both in political and economic issues. I often have discussions with my western counterparts and strongly disapproved of their opinions that China is importing all its oil from Africa. Statistics show that China only imported little proportion of oil in Africa. Oil is not the critical concern. Our concern is the long-term strategic consideration rather than short-term gains. That's why we are continuously increasing our strategic aid to Africa. Actually we are gaining very little profits in African countries such as Tanzania， but we still provide a large amount of funds in bilateral assistance. For instance, we offer Mali government 140 million dollars to help them build a bridge.

Being lacking in detailed information, we can hardly have a comprehensive analysis and that biases our judgments. And these are just some of my own opinions. Thank you for your attention!

China and the Financial Crisis – Implications for Low Income Countries

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Ok, I try to pose four questions, you know, to stimulate further discussions. The first is that the need for China to reform its ODA policy is becoming more pressing. For example, from this morning until now, we have discussed about that the previous ODA, or the existing ODA is much more relied on the economic cooperation of China in African states and also in Southeast Asia. So given the economic crisis, which for example with the increasing price of commodities, and also with the lack of export markets with Africa, so it seems that the economic interest that African states or other east Asian states could get from this kind of economic cooperation goes down. So the issue is although China is already suffering from a lot of political criticisms about how these so-called benefits come from south East Asia with low price commodities and capitalism and other things to developing countries, so it will become the kind of pressure for the Chinese government to see whether it has to reform its ODA. For example, how to make a couple of economic investments to be direct ones to these countries to address the social and development needs will be much more pressing. So that's one of the questions that the Chinese government needs to think , because I think for the last two years in the Asia pacific states and other OECD countries there is also a kind of request or encouragement from outside to try to make the Chinese government to consider more about these specific issues on social and development goals.

The second is what are the pictures that the so-called Chinese model the other countries can learn. So I think there are a lot of discussions today, and I think if we are still caught in the kind of Chinese picture, a strong development state, a state still in line with the new reform model, it is a little bit more fortunate for China. For example, when it is becoming to consider whether to further liberalize its food market, then the global food crisis came over. So the Chinese government may have to reconsider its role in further liberalizing the food market given the global food crisis in the so-called the Doha round the WTO discussion. And then China also faces pressure by EU or America to liberalize its financial market maybe in the forthcoming round and also in the Doha round or in the coming EU-China summit. And then it becomes the global financial crisis so it seems it is a little bit fortunate for China's government to have some kind of pragmatic and cautious regulation of this liberal model. So actually this is one of the lessons that other states can learn from this kind of more cautious, regulated and opening up of the market, but they do not have that kind of the strong state with strong financial capacity especially from exchange rate raising capacity of China and also the Chinese government's strong social intervention for example through education, now medical and also many other social programs. So these are what the low income countries can learn but they are lack of the social capabilities.

The third issue is what is an export-oriented development model is still needed to be reconsidered because of the financial economy that needed to be dealt with and also the markets of America and EU. So what is needed is to encourage the development of small enterprises and also the informal firms because for example for China we have negative lessons to learn because in the past I think there were a lot of policies about the management of enterprises, like the high taxation rate and also the very strict supervision from the government on local businesses. For example now for migrants returning to their counties, it is quite hard to open their own business in order to create the jobs. So I think this is the negative lesson that the Chinese government and China have to provide if it comes to the low income countries.

The fourth question is that if for example the economic crisis becomes more deteriorated, so what are the lessons of the social economy of the other low income countries have been taught to tackle the economic crisis. For example, what the time lag and also the different sort of social economy types are when they need cash by exchanging the idle time and their own resources. So I think these are the issues that no matter China and other countries have to take a look when we are facing the same economic crisis.

Policy Options for China in the Global Financial Crisis

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It is no accident that only China's economy is thriving amidst the current financial tsunami. China's three decades of rapid economic growth, success in withstanding the Asian financial crisis of 1997, and performance during the current global financial crisis demonstrate both its economic vitality and the effectiveness of its economic policy. It can be said that China's success in withstanding the current financial crisis and its continued rapid growth represent the largest contribution to global economic recovery. Not only is China providing guidance on economic policy to other nations, it is, more importantly, providing a model for prosperity to developing and low-income countries.

1. China's national interests require acceleration in the pace of Renminbi internationalization

The world currency market is an area for the global distribution of wealth

Experts have diverse and discrepant views as regards the current international financial crisis. In a sense, it is a time when great wisdom is needed. Relatively speaking, China's direct losses during this financial crisis have been comparatively small. China's purchase of American derivatives as well as the assets it had placed in the several bankrupt American financial institutions were minimal. Why were China's losses so limited? Many people believe it is because the Renminbi has not been internationalized yet. These people consider themselves to be very lucky. I believe that while this view can't be said to be completely wrong, it is one-sided and if adopted will mislead us as we respond to the financial crisis.

Currently, the Renminbi is not freely convertible and has not been internationalized. Therefore, we have suffered less during this international financial crisis. But in the world currency market we can be said to have suffered a significant loss. Because the U.S. dollar is an international currency, we actually sent our wealth to the United States, exchanging our financial assets for a large number of notes (U.S. dollars). Our wealth is being enjoyed by the Americans who, in return, give us paper. Terminologically speaking, this is called a royalty. Even worse, the U.S. dollar we are receiving for our wealth is depreciating. In other words, the dollars we receive in return for our riches today will not be sufficient to buy back our riches tomorrow.

Therefore, as aforementioned, the world currency market is an area for the distribution of global wealth. In this market, benefits attained by weak countries are limited, which is called "a weak nation has no diplomacy", because no other countries collect your currency in their foreign exchange reserves and nobody uses it as a settlement tool. In order to use other countries' currencies, you have to pay them a royalty. Over the years, China, if it hasn't paid the most royalties, is certainly among one of the nations that has paid the most.

How to look at the internationalization of the Renminbi

In my opinion, when our economy was fairly weak, we had no choice but to pay royalties to the United States, the European Union and some other developed countries. The process by which we increase our foreign exchange reserves and use the U.S. dollar as a settlement tool is simply a process in which we must pay a royalty. The United States obtained huge amounts of royalties by virtue of their contribution during World War II. After Europe had paid America a significant amount of royalties, Europe, with the issuance of the euro, reduced its payments to America and, indeed, began to be paid royalties themselves. China's economic growth and the strengthening of its power in the international market grant us the right to obtain a share in the world currency market. The present is an important time in that it offers a strategic opportunity to internationalize the renminbi. At present, China through its economic power has already attained its interests in the world currency market. If the Renminbi is internationalized and made freely convertible, I believe that many countries will accept it, or at the very least collect a certain amount as foreign exchange reserves. Enterprises that do business with China, likely even those who do not directly do business with China, will be willing to use the Renminbi as a settlement tool. Such a prospect is right in front of our eyes, it is certainly not far from realizable. If we fail to take advantage of such a strategic opportunity, we will surely regret it.

2. Use strategic thinking to solve the problem of stimulating demand effectively Consumption coupons & the dissemination of household electrical appliances to the countryside

In order to both cope with the adverse effects of the international financial crisis on our economy and ensure stable and rapid economic development, our country has been actively expanding its investments for some time and simultaneously promulgating a series of policies designed to stimulate greater household consumption,. According to my own research, some areas have actually implemented corresponding consumption stimulus measures, issuing various types of consumption coupons. These may work to promote present consumption, because the areas that issue them target low income groups and they are valid for only a limited amount of time. In other words, if they are not used today, they can't be used tomorrow. However, this approach is only a temporary and expedient measure. The purchase of household electrical appliances by rural denizens, on the other hand, is certain to stimulate parts of the rural market, and is more sustainable than consumption coupons. My own opinion is that both measures should be implemented, for they will both have a positive effect on the economy. We should remain aware, though, that neither of them is an institutional solution to the problem. Temporary measures should be taken, but the Chinese people's consumption rate is decreasing, which is a strategic issue and can be solved only through strategic thinking. I don’t think that anyone believes that issuing consumption coupons can be made to be the primary means of solving the problem of consumption demand. Issuing them is correct, but not sufficient.

Through analysis of the information from these two meetings, it is clear that the central government has made increasing the rate of consumption, especially household consumption, strategic issues to be studied. Farmers are the largest low-income group in our country. To improve the consumption rate, the income of farmers first must be increased. Increasing their salary is the primary path to increasing household consumption. As for how to increase the income of farmers, there have long been two schools of thought. The first is to raise the prices of agricultural products, while, at the same time,granting subsidies to low-income groups. The second is to increase subsidies for agricultural production, to lower production costs and to stabilize prices. I am a proponent of the former.

China's long decreasing consumption rate is due mainly to the fact that that the income of the ordinary labor force has remained low

Statistical data shows that the total wealth of our society has continually grown at a rapid rate, yet consumption rates have been falling. Why? The conclusion of my research indicates that under the conditions of a market economy, the relationship between the supply and demand of the factors of production determines the price of such factors, and consequently whether or not they will be deployed. Businesses, in order to obtain exceptional profits, need to compete with other enterprises in the market, carry out technological transformation, and achieve industrial upgrades. This mechanism is the primary reason that the market economy’s efficiency rate is fairly high as well as why societal wealth grows quickly. It is also why we gave up the planned economy and began developing a market economy. At the same time, we have to realize that along with the enhancement of economic efficiency and the high-speed growth of wealth, changes will definitely occur in the relationship between the supply and demand of production factors. Market economies demand more capital, technology, talent, advanced management techniques, and natural resources, but require less ordinary labor. The total social wealth increases a lot. Having said that, it is important to note that although the income of the high-income groups grows fast, their marginal propensity to consume remains relatively low and they allocate a fairly large proportion of their wealth to investment rather than consumption. Meanwhile, the low-income groups have no ability to pay, despite a high marginal propensity to consume. These are the mechanics behind why, over the course of the 10-20 years, total wealth has increased rapidly, but the consumption rate has continually fallen.

Increasing the income level of ordinary laborers is a systematic project, only a small part of which is solved by China’s *Labor Contract Law.* The purpose behind legislating China’s *Labor Contract Law* is correct. At our current level of economic development, the question of how to protect the intensity of these laws is a difficult one, especially since we must take reality into consideration (在我国当前的经济发展水平上，如何掌握保护的力度是个难题，也要经过实践来检验)。 Recently, our government promulgated a series of useful revitalization plans, but most are measures to solve problems in supply, with some measures also designed to solve problems regarding investment demand. I propose that a plan be formulated to improve the consumption rate, with a focus on solving those problems related to consumer demand, especially the problem of household consumer demand. Among these new plans should be some measures which can be implemented in the next few years along with some more strategic long-term designs. As long as China's household consumer demand is able to maintain long-term growth and stability and the household consumption rate can be seen to be increasing year-by-year, problems such as insufficient investment demand and industrial upgrades will not be hard to solve.

3. Tax system reform

The existing tax system and tax legislation, law enforcement, judicature and other related support systems, are nearly all developed from the tax reform framework of 1994. Having undergone 15 years of real-world tests, we can conclude that they meet our country's political, economic, and other development needs. However, any set of systems has its own general limitations as well as facets specific to a certain period of time. With this in mind, one must conclude that it is time to implement a thorough reform of the existing tax system in order to promote China's social and economic development. This, to me, is essential.

Thorough reform must use theoretical innovation as a guide

Government revenue makes up what proportion of GDP? This is a major theoretical problem. Currently, this part of the data is kept blank in China. The main reason is that at present the "financial income" portion of China's financial statistics, in accordance with regulations, only includes expected internal revenue, of which tax revenue is an important component. However, external (off-budget) revenue, which refers to the special capital or special funds set up by all levels of government through fees and charges in accordance with valid laws and regulations, accounts for a significant amount of the total government revenue.

There are still some structural problems in the existing tax system

The most prominent contradiction lies in business tax. Business tax reform can now be put on the agenda, but its transition into value-added tax will inevitably have a significant impact on the Chinese central-local tax sharing system. Of course, the reform will also impact collection, management and other related issues.

The reform of corporate income taxes should also be deepened. The combination of the above two is high in quality, but there are some issues remaining, the most notable being the repeated levy of both the corporate income tax and personal income tax. Whether the personal income tax should be collected integrally or separately has always been an extremely controversial question. I believe that China will continue to adopt the mode of concurrently adopting the separation and integration methods for a very long time.

Legislation, law Enforcement, and the judiciary should also advance with the times

Tax legislation, law enforcement, and the judiciary should also be advancing with the times, adjusting accordingly. Legislation must specifically define the local legislative power of the non-basic tax system. Law enforcement must specifically define the classification of functions between the central and local governments, the state taxes and the local taxes. The Judiciary should implement a "professional, touring" judicial taxation system.