AFRICAN EAST ASIAN AFFAIRS
THE CHINA MONITOR

CCS Commentaries

1 March 2012

Chinese economic reforms, the next round – impacts on Sino-African economic cooperation?

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During the last three decades, China has experienced a remarkable economic growth not yet achieved by any other country in the world. This boom has been centred on export-driven economy based on the competitive advantage that China has always benefited through its cheap (and abundant) human power and consequently low production cost in its manufacturing industries in the Southern provinces. With its reforms, this trend is meant to change and will probably affect Sino-African economic ties. The transition from low and middle incomes to high-income will be a challenge for Chinese officials and the path to success in China is changing now.

Since last year, China's central government (via its 12th five year plan) has announced social measures to improve the life of the numerous population in the underprivileged zones and the millions of migrant workers (民工/mingong) who work in construction and heavy industries and contribute tremendously to China's economic rise and modernisation. The reforms, among others, include an increase of wages and the controversial *hukou* system. Yet, even though the salaries have improved, the second, more substantial reform remains problematic.

The *hukou* system is not fully reformed

Basically, the *hukou* system is a residence permit given by the government of China (it might ring bells with South Africans, reminding them of the historical experience with the notorious passbook system). It is issued on family basis. Every family has a *hukou* booklet that records information about the family members, including name, date of birth, relationship with each other, marriage status (including spousal details, if married), address, etc. If the *hukou* system were revised, it could enhance peoples' lives and allow them to leave the countryside in order to look for job opportunities in developed coastal cities. The official fear is that this would lead to planning problems in cities such as Shanghai, Shenzhen, Guangzhou and Beijing which attract the largest number of workers; yet it would recognize already de facto city dwellers as citizens of these cities.

Migrant workers were hoping for an improved *hukou* system. However, the measures that the Chinese government announced in late February will effectively still limit *mingong* to the rural areas with few job opportunities other than in agriculture. The frustrating aspect for the *mingong* is that if they choose to venture towards major Chinese cities regardless, they will not benefit from medical insurance and their children will not have access to incentives for education. Clearly there remains work to be done on internal reforms.

Macro-economic goals and increasingly vocal demands

China's government aspires to shift from export-driven- to a consumption-based economy, and it should not forget to improve the life of millions of people left behind. During recent years, social tensions arose from unsatisfied factory workers and villagers (e.g. in Wukan and Xinfeng). Villagers lost their land without compensation in China's Southern and North-East provinces, leading to protests that could not be silenced by Chinese officials. Persisting inequalities between Chinese provinces and people, as well as environmental issues set limits to China that is mostly relying on exports and Outward Foreign Direct Investment for development.

In its China 2030 report published on 27 February 2012, the World Bank has already advised the "middle kingdom" to undertake reforms aiming at: "building a modern, harmonious and creative high-income society". China needs to strike a balance between the country's economic rise and people's livelihoods. Thus, there is a strong focus on attracting more inward foreign investment, not only for its coastal cities that have already reached a certain level of modernisation, but more for the northern, central and western regions. Such a policy will create jobs and contribute to the development of these inland provinces. With the salary increase, job creation and inward FDI directed to sectors such as services, tertiary industries and manufacturing, the hope is that consumption of Chinese people with rising purchasing power will increase.

China's economic reforms-what does it mean for Africa?

One can be critical of China's internal development. The fact remains that there is development – and that China's engagement in Africa has contributed to Africa's economic growth, even if a lot needs to be done for environmental protection and social issues surrounding China's investment in Africa. Chinese investment assisted a number of African economies to emerge despite the economic and financial crisis. Africa has not only benefited from China's outward FDI in various sectors but also has received a lot of "made in China" products in its markets.

China's economic boom has relied on export of its products, including to Africa. With the fierce competition in the Chinese manufacturing sector, many entrepreneurs have looked for new markets to sell their products. Yet, even if China is ranked as the world's second largest economy with an average annual growth of 9.9% in the past three decades and foreign exchange reserves of more than US$ 3 trillion, slackness has been noticed and may have impacts not only for China in maintaining its long-term growth but also for China's partner countries.

In the coming years, China's growth will slow from 9% a year to between 5% and 6% (World Bank "China 2030" Report). If reforms focusing on consumption-driven economy materialise in China for the coming years, the volume of Chinese Outward Foreign Direct Investment stock to Africa will slump and export volumes might never be like before. China will undoubtedly issue policies to reduce Chinese State-Owned Enterprises and bring them home to contribute to Inward Foreign Direct Investment. China's priorities will be directed towards other sectors in order to sustain its economy.

XI Jinping (习近平) and LI Keqiang (李克強) who will "undoubtedly" become China's President and Premier respectively in 2013, have already endorsed the World Bank's report. If XI is said to be open to foreign economies and politics, LI is more likely to support a change in economic structure to boost China's domestic consumption, industrialisation and modernisation and improve healthcare, housing, food and energy security. Beyond this agenda, consider the complex challenges in China including access to credit for small and medium sized enterprises, social and environmental protection improvement, land issues, and a real estate bubble waiting to burst. Just hoping for persistent growth in China will thus not be good enough for African development.