Summary

China and India have become major trading partners for countries in sub-Saharan Africa (SSA) in the past decade and are becoming important sources of foreign investment (especially China). While SSA provides minerals and oil needed to meet rapidly growing demand for industrial inputs, benefiting exporters, China and India are also increasing their import penetration in the region, with some adverse effects on competing local labour-intensive industries in both domestic markets and third-country export markets. Thus increased trade with China and India represents opportunities and challenges, the balance of which varies across SSA countries. This report provides an assessment of the impacts and puts forward some recommendations.

Trade relations with China and India

Eight resource-rich SSA countries dominate exports to China and India and are the main beneficiaries. These are Angola, Congo, Equatorial Guinea, Nigeria and Sudan for crude oil; and Democratic Republic of the Congo, South Africa and Zambia for metals and ores. Other SSA countries export timber and soft commodities such as cash crops; fruits, nuts and vegetables; oils and resins; and seafood.

Imports are also concentrated; Nigeria and South Africa account for more than half of the value of Chinese and Indian imports into SSA. However, China and India have an increasing share of the import market in many SSA countries. For example, China accounts for over 10 per cent of imports in seven countries, and over 20 per cent in Ethiopia and Madagascar. India has a larger import share than China in a number of SSA countries, mostly those located on or close to the Indian Ocean.

The largest import shares for China and India are industrial goods such as machinery and equipment, vehicles, iron and steel and, for India in particular, pharmaceutical products and cereals. In these products they are likely to be displacing suppliers from the rest of the world. China is more likely than India at present to provide imports that compete with SSA local producers, such as furniture, footwear and ceramic products.

The basic message in terms of a development-oriented long-term SSA export strategy is to concentrate on value addition (processing) to their resources. SSA countries should not overlook opportunities to develop garment exports, but these may not be a secure platform for long-term export growth. There is little evidence that China and India can assist the integration of SSA into global value chains, although they are often important investors in the garment sector. In some countries China and India have significant shares of textiles imports for this sector, but they are likely to have invested to avail of trade preferences. This suggests that the SSA countries are positioned in a fragmented production structure rather than supported in developing an independent position in the global supply chain.

Trade agreements, especially Economic Partnership Agreements (EPAs) with the European Union (EU), may threaten the shares of China and India in SSA imports, eliciting a response. The potential of tariffs as a policy instrument for protection and revenue will diminish. In the future, SSA trade policy should focus on exports. Domestic producers, including those competing with imports, should be the focus of agriculture and industry policy.

Investment from China and India

An important observation is that in practice it is difficult to clearly distinguish between foreign direct investment (FDI) and aid; for China in particular, many activities combine elements of both. Clearly, Chinese FDI in SSA is quite concentrated, with Nigeria, South Africa, Sudan and Zambia having the largest stock while Angola and Equatorial Guinea are more recent hosts. In general, China is investing in the same mineral-rich SSA countries that attract global FDI in general. Indian FDI is at much lower levels and concentrated traditionally in Mauritius and more recently in countries such as Côte d'Ivoire, Senegal and Sudan.

Chinese aid to SSA, amounting to about US$1 billion per annum and mostly in the form of concessional loans (or debt relief), is concentrated in the mineral resource-exporting countries and mainly directed to infrastructure. It is often tied to Chinese firms and linked to trade with China. Indian aid is focused on infrastructure projects in Nigeria and Sudan and lines of credit to West African countries. Indian aid levels are currently quite low (less than US$20 million per annum) but projected to rise significantly.

Chinese aid and investment has delivered benefits to SSA countries, but there are many reasons to believe that the dynamic benefits are less than they could be. Specifically, Chinese aid (and investment) appears to have few linkages with the local economy.

In terms of investment, SSA governments should be aware that FDI can be transient in nature. This is most likely if the investment is motivated by accessing trade preferences that may themselves be temporary. Investment motivated by securing access to resources is more long term, but SSA must ensure it receives the right price. In this regard, a number of policy recommendations are summarised in general terms:

- Resource-exporting countries should ensure that they receive a competitive market price and that the revenue from exports is invested in promoting development.
- Producers of soft commodities should be supported in identifying opportunities in China and Indian export markets through the provision of market information and access to networks.
- Effective export diversification should be based on identifying value-adding activities to process available resources.
- Imports from China and India can compete with some domestic producers, but governments should only support promising local firms with the potential to be more competitive.

- SSA governments should ensure that aid and investment projects by China and India contribute to the local economy and development by putting greater focus on sectors and projects with strong linkages with the rest of the economy.
- Investment by China and India is motivated by their own commercial interests and cannot be assumed to assist the integration of SSA producers into global value chains. The experience with garments cautions that such investment can be transitory.
- More effective engagement with China and India is possible if SSA countries co-operate to increase their bargaining power and encouragement regional investment projects.
- Relations with China and India will be affected by trade agreements with other parties, notably EPAs with the EU. Whilst EPAs may allow the EU to capture some market share from China and India in SSA imports, as they enhance preferential access to the EU, they will also make SSA more attractive for investment.