1

Introduction

The last decade has seen the rise of a number of developing countries, leading to a 'shift in global wealth' (OECD, 2010) and a rebalancing of economic powers. China and India have been the most prominent and have attracted the most attention, but others such as Brazil and Russia are close behind. This shift has been most evident in global patterns of trade. 'Between 1990 and 2008 world trade expanded almost four-fold, but South–South trade multiplied more than ten times and developing countries now account for around 37% of global trade' (OECD, 2010: 18). Economic (and political) relationships between developing countries (South–South) are more important now than they have ever been; developing countries trade more with each other, and more capital (investment and aid) flows between them absolutely and relative to their relationship with developed countries. This changing economic landscape will be an important influence on their future performance.

Although countries in Africa, and especially sub-Saharan Africa (SSA), still account for a small proportion of world trade, they have benefited from the growth of large developing countries through increased demand for their exports of primary commodities and associated investment flows. Recent data bear this out: 'the share of non-African developing countries in Africa's total merchandise trade increased from 8 per cent in 1980 to 29 per cent in 2008 and their share in inward foreign direct investment (FDI) flows to the region rose from an average of 12 per cent over the period 1995–1999 to 16 per cent over the period 2000–2008' (UNCTAD, 2010: 1). Against this backdrop two countries are the most important for Africa: China and India. There is a large body of literature that shows that the growth of China and India has affected SSA through various linkages including trade, FDI, aid and debt relief, and migration of Chinese and Indian workers.[1]

Although China has had economic relationships with many SSA countries since the 1960s, it is only in the last decade or so that it has become a major economic partner. This is most obvious in respect of primary commodity exports, where China has become the most buoyant market, but also relates to imports of manufactures, foreign investment and aid. 'The value of trade between Africa and China increased nearly tenfold between 2000 and 2008 ... making China Africa's second largest trade partner after the United States, and its largest developing country partner by far' (UNCTAD, 2010: 30). While not of the same magnitude, there have also been relations with India, often reflecting links with Asian business families in East Africa. As the Indian economy is now growing almost as fast as China's, it is also becoming a major trading partner with SSA. An assessment of the opportunities and challenges associated with expanding economic relations with China and India is thus essential to identify appropriate planning and policy responses for SSA countries.

As the development of China and India progresses, SSA countries are in a prime situation as sources of raw materials. For these expanding economies, SSA can provide the mainly cheap minerals and oil needed to meet rapidly growing demand for industrial inputs.[2] In turn, China and India are low-cost exporters of manufactures with increasing import penetration in SSA. While this will increase the welfare of consumers (through cheaper imports), it may undermine competing local labour-intensive industries (such as clothing) in domestic markets and also in third-country export markets. Thus increased trade with China and India represents both opportunities and challenges.

That China and India are having an impact on SSA is not disputed; what is not clear is the precise nature of the impact and how it varies across countries. Existing analysis has often been at high levels of aggregation (at least in terms of imports). This gives a partial picture of the effects, especially how they differ depending on the country context. The aims of this report are to provide a better understanding of the impact of China and India on SSA by focusing not only on countries but also on the sectors/products affected. More generally, it is intended to provide a clear understanding of the impact of interactions related to production, trade, investment and aid flows, with a view to inform policy measures to maximise opportunities and address the threats and challenges.

Context and issues

In the past 10 years China has become SSA's third most important trading partner (if the EU is treated as one unit); the value of Sino–African trade increased from about US$5 billion in 1997 to US$74 billion in 2007 (Taylor, 2010: 1). China is now the major source of demand for primary exports from SSA countries. China and India together have a massive population of 2.5 billion inhabitants, representing 37 per cent of the total world population (China 20 per cent and India 17 per cent in 2008). Over the past decade their economies have experienced rapid transformation and development. Between 2002 and 2008 China's gross domestic product (GDP) per capita in purchasing power parity (PPP) terms increased from US$4,600 to US$5,300, while India's GDP per capita rose from US$2,540 to US$2,700, and their combined GDP accounted for an estimated 15 per cent of world GDP in 2008. Recent World Trade Organization (WTO, 2009) data show that in 2008 China was the third largest trading nation after the United States and Germany (with exports representing 9 per cent of world exports and imports representing 7 per cent of world imports); by mid-2010 it had overtaken Germany. Given their size and tremendous growth (averaging 10 per cent annually in China and 6 per cent in India over the past decade), they have become major global economies (the implications of which are a focus of OECD, 2010).

The steady economic growth of both countries is partly due to trade liberalisation, a rapidly growing supply of low-cost skilled and semi-skilled labour, and FDI attracted by the growing market sizes and favourable investment and low production cost conditions. As a result China's exports have increased relative to imports, leading to large trade surpluses with almost all other leading global economies and developing countries. Between 1996 and 2008 China's exports increased nine-fold from US$151 billion to US$1,428 billion, while its imports increased eight-fold from US$139 billion to US$1,133 billion. Imports largely comprise raw materials, oil, metals and precious minerals needed to meet growing domestic demand and production for export.[3]

China became a member of the WTO on 11 December 2001, while India is an original member of the organisation (constituted on 1 January 1995). Both countries have stepped up their involvement in regional and bilateral trade and investment agreements, and also offer some developing and least developed countries (LDCs) preferential access to their domestic markets as well as debt relief and aid. As a result, they are now exerting substantial economic 'pull and push gravitational forces' in an increasingly globalised and integrated world economy. These forces offer fundamental opportunities and pose challenges with both direct and indirect, complementary and competitive impacts from the perspective of other economies, and have generated interest among policy-makers and researchers in developed and developing countries alike.

China's appetite for imports has been growing rapidly over the past decade as its economy has expanded. It needs raw materials and other inputs to sustain its growth. The strategic importance of Africa, a traditionally rich source of raw materials, was reflected in the Forum on China–Africa Cooperation (FOCAC) that first met in Beijing in 2000 (and subsequently met in Addis Ababa in 2003, Beijing in 2006 and Cairo in 2009). FOCAC established a new era of trade co-operation between China and Africa, especially SSA. Since then Africa has become more important as a source of oil and of raw materials needed by the Chinese manufacturing sector. Similar relations are being established with India, which declared commitments on aid, market access and investment at the India–Africa Forum Summit in 2008.

Under the FOCAC, China grants non-reciprocal duty-free access to 190 products imported from 28 African LDCs. Chinese firms have also heavily increased investments in Africa, particularly in the oil sector (in Angola, Nigeria and Sudan), infrastructure construction projects (e.g., the US$8 billion Lagos–Kano railway project and a US$300 million highway upgrading in Nigeria), textiles and clothing (in part to circumvent US and European limits on Chinese textile and clothing exports) and mining (e.g., a US$200 million copper project in Zambia). Under the India-Africa Forum, India has offered tariff-free access for most exports of LDCs (33 in SSA).

China and India will continue to be a major source of demand for SSA exports, offering significant trade opportunities to countries with mineral resources. On the other hand, imports represent a challenge to domestic manufacturing sectors in SSA countries. Although the major products involved are machinery and equipment, vehicles and pharmaceutical products that do not compete with local industries (except perhaps in South Africa), Chinese consumer goods (electronics, clothing and shoes) have captured an increasing market share in SSA imports (and Indian imports include processed foods). The nature of this trade-off affects SSA countries differently as in general the countries that export the most to China and India are not the same as the ones for which penetration by Chinese and Indian imports is greatest.

Aims of the report

The primary aim of this report is to quantify the importance of China and India as economic partners with SSA countries. The main focus is on trade flows for which reasonably comprehensive data are available, exploring import and export patterns and identifying the main SSA countries and sectors involved. A secondary focus is on investment and aid flows from China and India to SSA, although data here are more limited (especially for India).

Based on a review of data and literature on the levels and impacts of trade, investment and aid flows between SSA and China and India, the report's objective is to inform policy responses and strategies for enhancing the ability of SSA countries to exploit the opportunities and enable them to integrate their economies into more lucrative global value chains. It analyses sectors/products benefiting from SSA's increased engagement with India and China; assesses the implications of this increased engagement for SSA regional integration and preferential trade arrangements with developed countries; identifies SSA countries benefiting from increased engagement; and addresses related concerns and challenges.

Outline of the report

Whereas data are available to demonstrate the importance of China and India as trading partners, observations regarding investment and aid (mostly related to China) are often based on anecdotal evidence as hard data are difficult to compile. This is reflected in the structure of the report, as a more detailed analysis of trade relations is possible than of the other areas.

Section 2 documents the importance of China and India as trading partners. Although the importance of India lags behind China, both are major sources of demand for raw material (natural resource) exports from a similar set of SSA countries (though fewer in the case of India); they thus provide an opportunity for SSA resource-rich exporters. Both are also increasing their share of SSA imports, especially in textiles and clothing, machinery and light manufactures (in particular consumer goods). This tends to affect different SSA countries, especially those with competing local producers facing the challenge of adjusting to increased import competition.

Section 3 focuses on investment and aid flows to SSA from China, with limited information for India. Although still a relatively small source of capital inflows compared to developed countries, China is increasingly becoming a major player on the continent, especially in a select number of countries. It is worth noting that distinguishing between FDI and aid poses a practical challenge as, for China in particular, many activities combine elements of both. As neither China nor India adhere to the Organisation for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) definition of aid, it is particularly difficult to quantify such flows; recognising this, UNCTAD (2010) refers to 'official flows' to encompass aid.

Section 4 identifies opportunities and challenges faced in different SSA countries with a view to deriving policy recommendations. The discussion reflects the broader context of economic relations between SSA and developed countries and any relevance for increasing diversification of SSA export opportunities. A particular focus is on the implications for SSA countries in developing coherent investment strategies.

Notes

1. See for example, Ajakaiye (2006), Bosshard (2008), Finger (2008), Giovannetti and Sanfilippo (2009), Gu (2009), Kaplinsky (2007), Kaplinsky and Morris (2008; 2009), Minson (2008) and Oyejide *et al.* (2009).
2. Countries in Latin America and the Middle East are important sources of raw materials and oil for China and India as well; some are also significant trading partners with Africa (notably Brazil, Turkey and the United Arab Emirates). The West is an important source of intermediate inputs, metals (e.g., steel) and FDI.
3. India's exports rose five-fold from US$33 billion in 1996 to US$182 billion in 2008 while imports rose eight-fold from US$39 billion to US$316 billion over the same period (World Bank via WITS database).