Winners and losers: China's trade threats and opportunities for Africa

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The challenge

In the mid-17th century China accounted for more than one-third of global output. Internal turmoil thereafter resulted in economic stagnation and decline, particularly during the nineteenth century. By the mid-1970s, China's share of global output had declined to less than five per cent.

China's 'take-off' to rapid sustained growth began around 1979, and the economy has grown at an annual growth rate of more than 9.5 per cent since then. The OECD estimates that by 2016, China will be the world's second largest economy. However fragile the domestic political picture might seem, as China responds to the unequalising outcomes of globalisation and pressures for greater democracy, there can be little doubt that China will become one of the dominant economies – if not *the* dominant economy – of the 21st century.

Deleted: Whatever its political excesses, the post-war communist regime built the foundation for rapid growth.

China's rapid growth rate is not unique. In recent years, Japan, Korea and Taiwan have also experienced similar economic miracles. But China is a special case. Japan's growth could proceed with little impact on the global economy. But when an economy with more than 20 per cent of the global population grows at a sustained high rate, the global impact is much greater.

This impact is compounded by the astonishing openness of the Chinese economy. Its trade to GDP ratio of more than 70 per cent is very high for a large economy. Add in the impact of the currently less-open Indian economy, growing rapidly since the early 1990s and likely to be the most populous economy by 2030, and the gravitational pull of the broader Asian economy is likely to become overwhelming. Consider a further dimension – the distinctive character of the economic and political actors in these two Asian economies – and the logic of engaging with these "Asian Drivers" becomes inescapable.

Africa of course represents a very different story, particularly over the past 25 years. For Africa, this has been a period of sustained economic decline, war, poor governance and failed states. Between 1990 and 2001 China experienced a massive reduction in levels of absolute poverty – the numbers living below the US$1/day benchmark fell by 165 million; by contrast, in the same period, the numbers living in absolute poverty in Africa increased by 77 million.

For Africa then, China is important in two key respects. Firstly, there may be lessons to be learned from China's success, notably the policy regime required to deliver sustained economic growth. Here China's story stands in stark contrast to the prescriptions of the Washington Consensus, which are seen as having been foisted on Africa and other developing economies. Secondly, what threats are posed and what opportunities are opened for

African development by China? Who in Africa is gaining and who is losing from China's rapid growth and outward orientation? And who might gain and who might lose if Africa adopts a new 'look-east' policy agenda?

A comprehensive framework is essential

Chinese aid, trade and foreign investment in Africa often represent closely coordinated strategic initiatives, something which is emphasised throughout this collection.

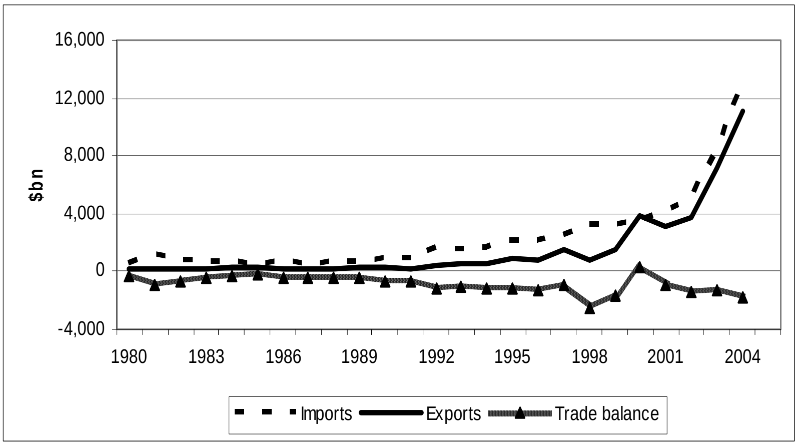
But if we focus specifically on trade-related issues, two issues are crucial. First, it is important to distinguish between *competitive and complementary impacts*. In some respects, China and Africa's growth is synergistic – Africa may produce what China requires, or China may export the goods that Africa needs. Alternatively, Africa and China may compete with each other, selling the same products into global markets, or perhaps competing with each other to import scarce materials such as oil.

A second important element to consider is the distinction between *direct and indirect impacts*. The direct impacts are obvious and often easy to record – what is the direct trade between China and individual African economies? Which Chinese firms are working in Africa, and in what sectors? But the indirect impacts are often much larger, and they are much more difficult to assess. China's trade in global markets affects global demand and supply, and this filters through to the prices paid by African importers, and received by African exporters.

The direct trade impact

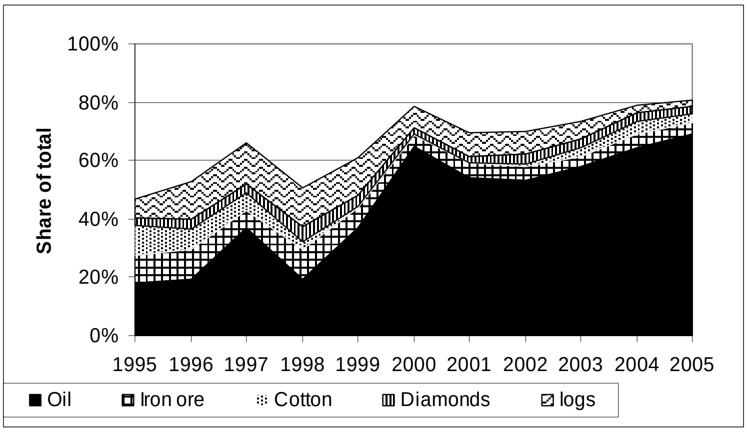
Recent years have seen an astonishing growth of trade between China and Africa. Before the impact of the surge in commodity prices was felt, in the second half of 2005, Africa was increasingly sinking into a deficit in its direct trade with China (Figure 1). Most of China's imports from Africa (with the exception of those from South Africa) were commodities (Figure 2), reflecting a combination of China's growing import dependence for these raw materials, and Africa's enormous resource potential. Oil imports from Africa have increasingly dominated China's trade with the region, so that whilst Africa's trade deficit with China as a whole may not seem to be large, it has in fact grown rapidly for those African economies not exporting oil.

Figure 1. Balance of trade between China and SSA, 1980-2004



Source: Calculated from IMF Direction of Trade Statistics, accessed 2nd February, 2006.

Figure 2: Composition of Chinese Imports from SSA



Source: Derived from Sandrey (2006)

In terms of oil, China's share of exports is significant, particularly in fragile states such as Angola, Sudan and the Congo. A similar picture emerges in the Democratic Republic of Congo (DRC) in the case of basic metal exports (Table 1). Some countries such as Tanzania (cotton and wood) and Gabon and Cameroon (wood) supply China with above-the-ground natural resources.

Table 1: Share of particular commodities in exports to China

	Crude oil	Metals	Wood	Cotton
Angola	100			
Sudan	98.8			
Nigeria	88.9			
Congo	85.9			
Gabon	54.8		42.3	
DRC		99.6		
Ghana		59.8		
S Africa		45.6		
Cameroon			39.7	
Tanzania			23.4	53.8

Source: Goldstein et. al. (2006)

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Only seven African countries source a significant share of their total imports from China. Sudan stands out, with 14.2 per cent of its imports coming from China. This is followed by Ghana and Tanzania (9.1 per cent), Nigeria (7.1 per cent), Ethiopia and Kenya (6.4 per cent) and Uganda (5.1 per cent). Almost all of these imports were manufactured products.

There is a debate on the extent to which manufactured imports from China are competitive or complementary for Africa. On the one hand, China-sourced imports into Africa have substituted for traditional suppliers, often providing much cheaper and more appropriate products than those sourced from high-income economies of Europe, North America and Japan. In addition, much of Africa's clothing exports use Chinese fabrics. These imports suggest little displacement of domestic production, few negative impacts on employment and local production, and a boon to consumers.

This rosy picture of opportunities may however reflect a misplaced sense of optimism, as there is growing evidence that imports from China have displaced African producers.

Textile, clothing, furniture and footwear manufacturers in countries such as Ethiopia, Ghana, Nigeria, South Africa and Zambia have been adversely affected by imports from China. In Zambia, trade unions claim that imports of Chinese clothes have undermined the clothing and electrical sector, and in Nigeria, trade unions blame Chinese imports for the loss of 350,000 jobs. In Ethiopia, although competition from Chinese shoe imports has led to an upgrading of processes and design by many domestic firms, it has simultaneously had a negative impact on employment and domestic output. A study of 96 micro, small and medium domestic producers reported that as a consequence of Chinese competition, 28 per cent were forced into bankruptcy, and 32 per cent downsized their activity.

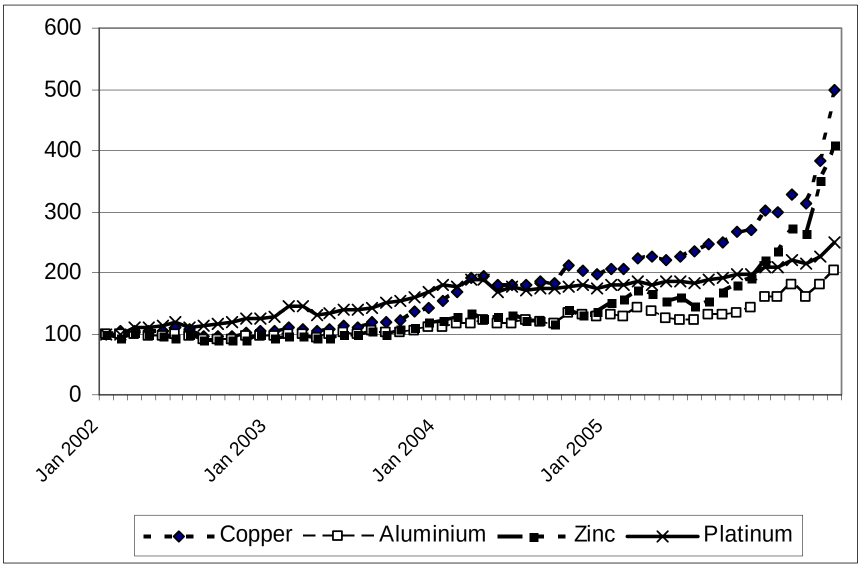
However, damaging though these impacts might be, the concern is not so much the short-term displacement of existing producers, but the challenge to future production. Particularly in the case of light consumer goods, Chinese imports pose adverse and long-term implications for African industrialisation in the future. What 'spaces' will African producers be able to move into as their economies grow and they seek to diversify?

The indirect trade impacts

Both China and Africa trade in global markets. But China's trade footprint is so large that it is dramatically altering global prices. This has significant consequences for Africa. The indirect trade impacts are much more difficult to analyse, which is why most of the analysis of China's impact on Africa has so far focused on the growth and impact of direct trade links.

As with direct trade impacts, indirect trade impacts may be both positive and negative. As Abah Ofon highlights in his chapter, China accounts for almost all the increase in the global consumption of the major commodities after 1998, and this has led directly to an increase in global commodity prices (Figure 3). This development has been beneficial for African commodity exporters, even those who are selling into third country markets.

Figure 3. The rising global price of commodities



Source: Calculated from data provided by The Guardian, and derived from data sourced from Thomson Financial.

A second positive indirect impact of China's trade is that its rapid expansion of manufactured exports has contributed significantly to reducing world prices for manufactures. This has been crucially important for those countries importing manufactures, enhancing the real spending power of consumers and holding inflation at bay. The welfare impact of these falling prices on African consumers, especially those with low incomes, should not be underestimated.

Each of these positive indirect impacts in global markets has its downside for some African economies. The rising price of commodities (and especially oil) may have benefited exporting African economies. But at the same time, it has had adverse impacts on those African countries which import these commodities. The rising price of oil has had significant harmful impacts.

The falling prices of manufactures have also placed enormous pressures on producers in other countries, even those who do not directly trade with China. They are faced with collapsing global prices which often make it difficult to compete in global markets, even when wages and incomes are reduced. We can witness these pressures in the UK, in the EU and in all the high income countries. But they are also felt acutely by exporters in other low income economies who compete with China in global markets.

In the case of Africa these pressures are felt most significantly by the six economies who have become major exporters of clothing, particularly to the USA – Kenya, Lesotho, Madagascar, Mauritius, South Africa and Swaziland. The scale and growth of these exports, on the back of trade preferences provided by the US African Growth and Opportunities Act (AGOA) in 2000, has been substantial (Table 2 – data from Mauritius is excluded from this table).

Lesotho is a notable case. One of the world's poorest economies, it has little to export other than unskilled labour and water, until the advent of AGOA. Its exports of clothing to the US rose from US$146 million in 2000 to US$462 million in 2004. Equivalent to 50 per cent of GDP, these exports accounted for 99 per cent of all merchandise exports. Kenya is another case. It has a wider export portfolio than Lesotho, but as AGOA clothing exports rose from US$47 million to US$296 million between 2000 and 2004, employment in the exporting enterprises grew to the equivalent of 20 per cent of total formal sector employment in manufacturing.

Table 2: Growth of SSA clothing and textile exports, 2000-2004

Supplier	Year	Exports (US$ '000):		
		World	*USA*	*US share*
Kenya	2000 2004	51,527 305,448	46,701 295,520	90.6% 96.7%
Lesotho	2000 2004	154,192 494,155	146,364 481,787	94.9% 97.5%
Madagascar	2000 2004	610,683 559,501	115,377 345,728	18.9% 61.8%
Swaziland	2000 2004	37,712 190,537	33,356 188,467	88.4% 98.9%
South Africa	2000 2004	453,153 252,453	150,313 149,402	33.2% 59.2%

* Mauritius is a major African exporter but is excluded from this table.

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Source: Kaplinsky and Morris (2006)

The global clothing and textile sector has been a major arena for protectionism. The end of 2004 saw a major change in the Multi-fibres Agreement (MFA), which benefited Chinese exporters. In the past, they not only paid higher tariffs when exporting to the US and other destinations, but were also limited by quota controls. From the beginning of January 2005 these quota limits were lifted and China could sell as many items into major markets as it wanted to. (However, the astonishing growth of these exports subsequently led to a 'temporary' re-imposition of quota controls, albeit more generous than those existing prior to 2005).

The impact of reduced controls on China's clothing and textile exports was severe for African clothing and textile exporters, although not as bad as originally anticipated. In the first full year after quota removal, Africa's overall AGOA clothing exports declined by 17 per cent, Lesotho's and Madagascar's exports each fell by 14 per cent, Swaziland's by 10 per cent and Kenya's by three per cent (Table 3). The major casualty of quota removal was South Africa, whose AGOA exports collapsed, virtually halving.

This suggests a direct exclusionary impact by China, and other Asian economies, on Africa in third-country markets.

Table 3. African export performance following quota removal (2004 versus 2005)

	Change in SSA export value (%)	Change in China exports in equivalent product groups (%)	Fall in unit prices of Chinese exports to US (%)
AGOA	-17	58	-45.9
Lesotho	-17	112	-46.2
Madagascar	-14	76	-44.0
S. Africa	- 45	65	-33.0
Swaziland	-10	91	-51.9
Kenya	-3	77	-44.8

Source: Kaplinsky and Morris (2006)

The negative impacts of this competition from China are large and focused. The scale of job-losses arising from the end of MFA quotas is alarming (Table 4). And it is not just the degree of job loss (particularly in Lesotho and Swaziland) which is of concern, but also the nature of these jobs.

These jobs mostly involve women, and the effect on their families is acute. In South Africa, for example, it is estimated that approximately four people are supported for every job in the formal sector. For countries without alternative sources of employment, this decline has major poverty implications. But we also know from global experience that rapid economic growth can be a significant factor in reducing poverty levels, and the loss to both GDP and exports arising from a sharp contraction of the clothing sector will have a further negative impact on poverty levels.

Table 4. Employment decline in clothing sector, 2004-2005.

	2004	2005	% decline
Kenya	34,614	31,745	9.3
Lesotho	50,217	35,678	28.9
S Africa	98,000	86,000	12.2
Swaziland	32,000	14,000	56.2

Source: Kaplinsky and Morris (2006)

Winners and losers

It is possible to broadly sketch out the likely winners and losers from these direct and indirect trade impacts – that is, the impact on different sectors and economies, rather than particular groups within these economies. Figure 4 classifies products by the extent to which they are imported or exported by China and Africa respectively. This breaks down into four groups:

On the gain side are:

- Products which Africa exports and China imports – that is, China as a market for African goods. The beneficiaries are the hard commodity and oil exporters including Nigeria, Sudan, Angola, Zambia, South Africa, the DRC, Ghana and Gabon (Quadrant 1)

- Products which China exports and Africa imports. This includes most basic consumer goods and some capital goods, as well as fabrics for Africa's clothing industry. All parties gain from falling world prices and the availability of more appropriate goods (Quadrant 3).

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On the losing side are:

- Products exported by both China and Africa, where African economies encounter fierce competition in third country markets. The primary sectors are clothing, textiles, furniture and shoes, affecting a wide range of African economies, especially Kenya, Lesotho, Madagascar, Mauritius, South Africa and Swaziland (Quadrant 2).

- Products which both Africa and China import, notably oil (Quadrant 4).

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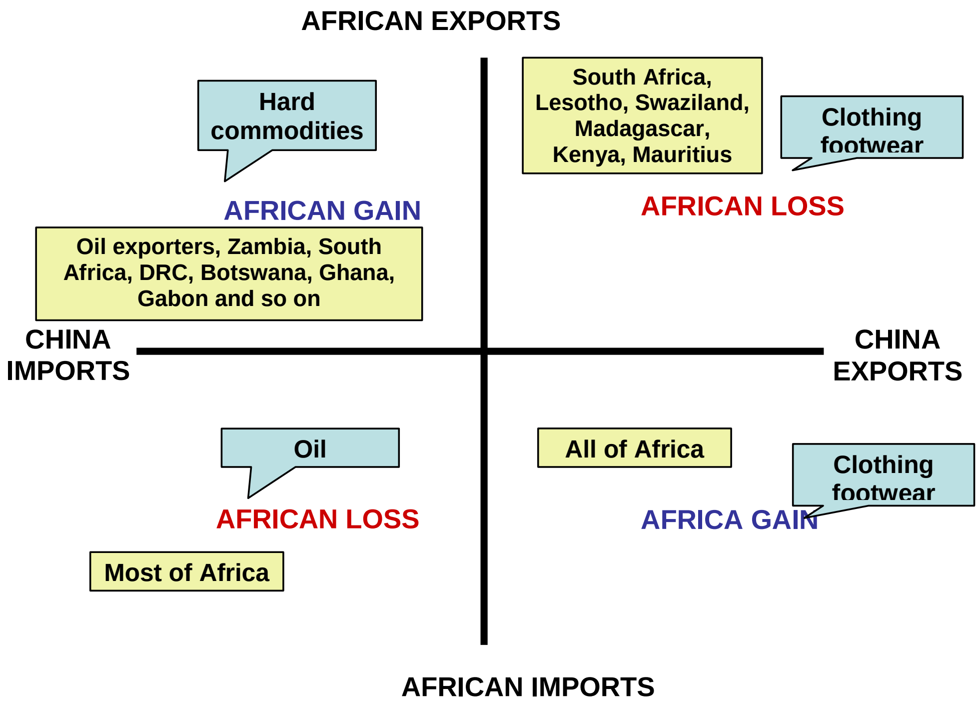
Figure 4. Winners and losers in Africa



And the policy implications are…

Five primary sets of policy response may enable African economies to take maximum advantage of the opportunities and to minimise the potential costs arising from China's rapid growth. Of course, 'economies' are not people, or groups of people, and the impacts on different segments of the population may require different or nuanced responses.

First, China's footprint in the world economy is now so large that it seems to be changing what has long been considered one of the inexorable trends of the modern era. Its demand for commodities is leading to a rise in the relative price of these products whilst at the same time its exports result in a falling relative price of manufactures. This alteration of the 'terms of trade' has multiple implications, particularly for commodity exporters.

One of the lessons of economic specialisation is that for many countries, particularly in Africa, commodities are a 'resource curse' rather than a source of sustainable wealth. Their exploitation is often associated with war, and government coffers swelled by export receipts are a honey-pot for corruption. So, as John Rocha highlights in his chapter, domestic political actors in Africa as well as outside agencies will have to address the challenges the current commodity price boom might pose for good governance.

Rising commodity prices create other challenges too, particularly for economic management. Countries need to learn how to harvest and store the revenues generated in good times of rising prices to cover their needs when commodity prices fall (as they inevitably will, albeit not in the short run), a lesson well learned by Botswana. Another policy challenge raised, referred to as the Dutch Disease, is how to mitigate the consequence for non-commodity sectors when the exchange rate rises as a result of booming commodity prices.

A second set of policy challenges confronting Africa relate to the industrial sector. The falling global price of manufactures, and the rising tide of cheap manufactured imports from China, creates major difficulties for African industry.

This is not only a problem in the short run for countries such as South Africa and the other AGOA clothing exporters, but a much bigger problem for the future, as African countries seek to diversify out of agriculture. Here though, it is too easy to be drawn into undue pessimism. We know that there is considerable scope for African manufacturing firms to enhance their productivity, often without engaging in costly investments in new equipment. We also know that in reality many Chinese firms, including those operating in Africa's clothing sector, are inefficient. For example, Chinese supervisors in Lesotho garment plants do not speak Sesotho and achieve low levels of cooperation from their workforces.

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There is real potential for a policy framework which facilitates African firms in building their dynamic capabilities. Some of these industrial policies, incidentally, owe much more to the experience of China than to the policy prescriptions of the Washington Consensus.

Third, there are important lessons to be learned for the global community in the construction of a rules-based trading system. What Africa does *not* need is a level playing field. The evidence is that Africa continues to require privileged access to major global markets, but that this privileged access – the 'sloping playing field' – needs to be tilted as much against Asian developing economies as against the high income economies of the North. Special and Differential Treatment for African economies remains a very important agenda item, in world trade negotiations.

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A fourth and related policy challenge is what to do about trade policy reform in Africa. Providing unrestricted market access to China and other Asian producers will sound the death-knell of African industry. Africa needs to be able to protect itself from global competition. But, unlike previous eras, this protection cannot be undertaken on a national basis, with the possible exception of South Africa in some sectors. Markets in Africa are too small to allow for scale economies and competition, so this new protectionism needs to be thought of on a regional basis. Here, too, the model to be followed is much more like the 'Beijing Consensus' than the 'Washington Consensus'.

Finally, Africa needs a strategic reorientation. Trade and other economic and political links are still predominantly with the North in general, and often with former colonial masters in particular. This is reflected in infrastructure, communication links, language capabilities, diplomatic configurations, in culture, and in adherence to the Washington Consensus.

The size and dynamism of the Asian Drivers (particularly China) begs for a strategic reorientation by individual and groups of Africa economies. The mantra of the future, should be "Go East, Young (Wo)Man". But if this strategic reorientation is to be effective, than African economies will need to adopt the same coordinated strategic approach to economic, social and political links with Asia as China currently takes toward Africa.

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