

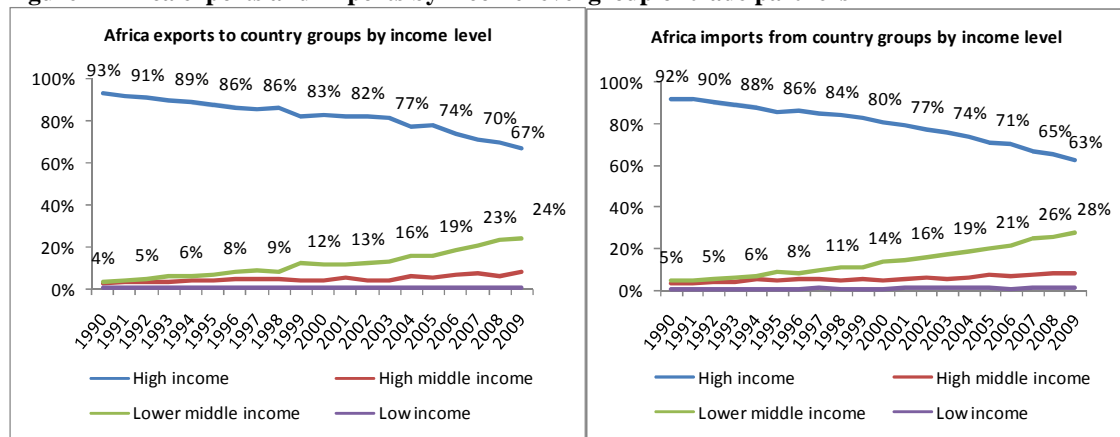
A Path to Mutual Prosperity?
The trade and investment between China and Africa

By Xiao Ye*

I. A very brief review of China and Africa’s Trade

The explosion of commerce between emerging economies, most of them having achieved lower-middle income status, and the countries of sub-Saharan Africa is a striking hallmark of the new trend in South-South trade and investment. As recent as 1990, the trade between high income and Africa countries account for 90 percent of total Africa trade while lower-middle income countries accounted for only 5 percent. Today, the trade between lower-middle income and African countries account for more than a quarter of total Africa trade (Figure 1). If the current trend continues, it is possible that lower-middle income countries will share equally the Africa market with high income countries. Indeed, this acceleration in exchange among developing countries is one of the most significant features of the current global economy.

Figure 1 Africa exports and imports by income level group of trade partners



Source: IMF Direction of Trade and author calculations.

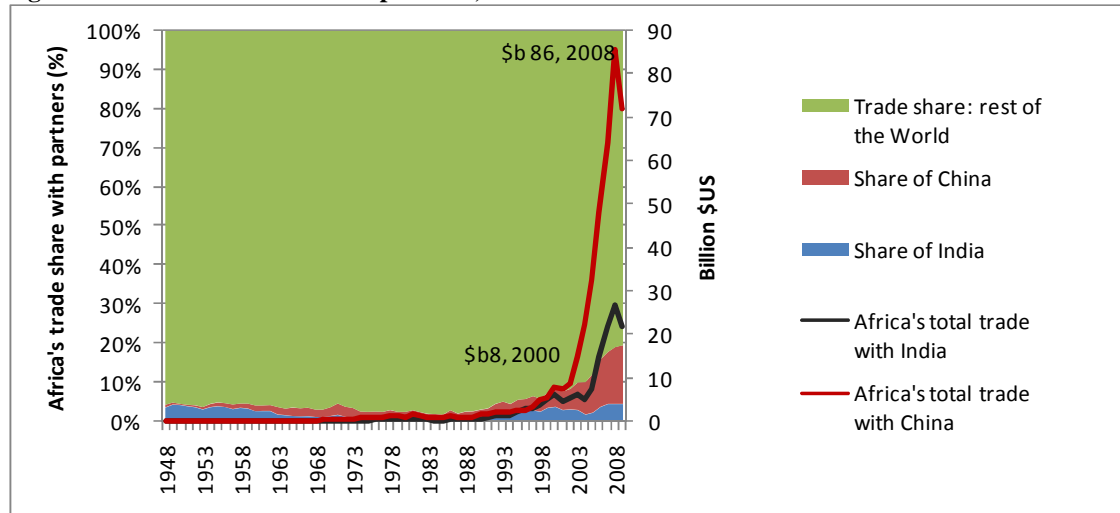
China, having recently acquired the lower-middle income countries, is leading the trade expansion between Africa and lower-middle income countries. In a period of mere one decade, China and Africa’s trade has increased from \$8 billion to \$86 billion in 2008, averaging an annual growth rate of 35 percent (Figure 2), which is much higher than China’s overall trade growth rate of 17 percent. The trade statistics can hardly keep up with the fast trade growth between Africa and China. Based on an article entitled “The Next Empire” Africa and China trade just passed 100 billion \$US mark in 2010.¹

* Xiao Ye is an Economist at the World Bank. The view expressed here is the author’s and does not represent any of Bank’s views concerning Sino-Africa commerce relationship.

¹ French, Howard w., May 2010, “The Next Empire”, The Atlantic.

<http://www.theatlantic.com/magazine/archive/2010/05/the-next-empire/8018/>. Based on Chinese Ministry of Commerce, the total trade between China and Africa surpassed \$100 billion mark in 2008, and expected to reach \$110 billion in 2010.

Figure 2 Africa trade shares with partners, and its total trade with China and India



Source: IMF Direction of Trade database and author's calculation.

Despite its dazzling growth rate, Africa's trade with China in fact accounts for only 15 percent of its total trade and China's FDI to Africa accounts only for less than 5 percent of total FDI received by Africa. China's prominent visibility in Africa seems to be only matched by the speed that it is expanding its trade and investment collaboration with Africa. The North-South trade and investment still dominates Africa scene, but much less so than a decade ago.

Everywhere else in the world, it seems, whoever trades with China is gleaming with joy for riding on Chinese economic booming wagon to boost its own economy, such as Australia, Brazil, Malaysia, Peru and lately, Canada. But China Africa trade expansion has drawn skeptics and criticism. International debates are fierce with opinions ranging from that China is repeating the old colonial powers' story of exploring Africa's rich natural resources to that China-Africa trade and investment activities are providing Africa with much needed capital and suitable technology for its development. In contrast, China's expansion in other parts of the world, such as Latin America and Russia, has dawn much less attention or criticism. This paper endeavors to shed lights on the China-Africa debate by quantitatively analyzing trends and patterns of the China Africa commercial activities in recent years.

Much research has been done with extensive and sometimes heated discussions on whether China's advance in Africa has benefited or will benefit Africa growth and development. Although ultimately this is the author's question too, the limited scope of this paper renders a much narrower set of issues to be examined. The objective of this paper is to shed light on some commonly held discussions by answering a rudimentary question and to propose for the future research areas that would focus on how Africa can benefit from its booming commerce relationship with China.

The rudimentary question examined by this paper is whether China-Africa commerce relationship is governed by a set of rules that special to China and Africa. The rest of the

paper is organized as following. Section II gives a brief literature review on current debate about whether the rapid growing Sino-African relationship benefit Africa growth, Chapter III examines China's trade partners in Africa, Chapters IV and V examine the similarities and differences of the Sino-African, Sino-the Rest of the World and African-the Rest of the World trade patterns, Chapter VI talks briefly about African comparative advantages to China, Chapter VII examines FDI flows to Africa, and Chapter VIII draws concluding remarks.

II. A brief literature review

The dazzling speed of advancement between Sino-Africa relationships is only matched by prolific writings on this subject. An Factiva search on articles related to "Region=China and Africa" and "Field=Trade, FDI, physical trade, tariffs/trade barriers, trade figures" yielded total of 2,452 entries between 1990 to 1999, and 14,143 entries between 2000 and 2010, an increase of more than five times in 10 years. In comparison, the articles related to Africa-Europe in the same field yielded 20,629 entries in the first decade and 22,451 entries in the second, barely any increase between the two decades.

Most academic researches tend to demonstrate both up and down sides of Sino-Africa commerce relationship while journalist articles tend to report sensational Chinese debacles. Overall, pessimism seems prevail with a few exceptions of cautious optimism. While Broadman (2008) perhaps is one of a few optimists, concluding that the intense interest by China and India to pursue commercial relationship with Africa could lead to greater export diversification toward increased production of labor-intensive commodities in Africa, he concedes, however, that there are major imbalances in the current commercial relationship. Absent of significant policy reforms for both China and African countries, but especially behind-border reforms for African governments, could reduce the likelihood of a Sino-Africa boosted prosperity for Africa.

Chinese growing role as infrastructure financier for Africa does not go unnoticed either. Given the huge infrastructure deficit in Africa and with no traditional financier in sight to invest more, Foster and all (2009) welcome the opportunities provided by Chinese to ease Africa's infrastructure bottleneck for greater growth potentials, noting that China has developed one of the world's largest and most competitive construction industries. They painstakingly collected Chinese investment statistics in Africa from vast publications in Chinese language, a first effort of such kind, to quantify Chinese infrastructure finance in Africa because no official statistics are readily available. The book concludes that the combined finance from emerging economies have recently become comparable to traditional official ODA, with Chinese annual financing reaching from to \$4.5 billion in 2007, from mere \$0.5 billion in 2001-2003.

Their statistics confirm some and refute other commonly held views about Chinese commercial activities in Africa. It is well known that Chinese finance is highly concentrated in resource rich countries, with 70 percent going to Nigeria, Angola, Ethiopia and Sudan, Foster and all conclude that such investment strategy is conducive to Africa development since Chinese investment in power and transport sectors is within the broad bilateral cooperation agreements, allowing resources to be allocated in accordance

with government priorities. They also find that while African leadership tends to welcome China's non-interference policy, civil societies have expressed concerns about the social and environmental standards applied by Chinese companies. Broadman observes that Chinese FDI in SSA coming from state- or semi-state-owned firms, with access to very low-cost capital operating, have much longer time-horizons on the strategic objectives of gaining access to raw materials than Western and Japanese FDI that comes from privately-owned corporations focusing on profit maximization in a much shorter horizon.

Southall and Melber (2009), in their book entitled "A New Scramble for Africa?", point out that it is naïve to welcome the Chinese offensive in Africa as an alternative to the long-hoped-but-never-realized-prosperity pinned on to Western involvement in Africa. They point out that the emerging south-south exchange relations differ little from the established practices of exploitation, and the improved bargaining options and new choices provided by emerging economies, above all by China, can be a double edge sword because such new power can also strengthen undemocratic governments.

At the cooperate level, Knorringa in van Dijk's book (2009) concludes that two general trends make it unlikely to mainstream responsible production and fair trade in Africa, given increasing Chinese and other emerging economies' involvement in the world trade and international production. First, the pressure of fierce competition invoked by Chinese and alike render social responsibility a luxury goods and, second, the new middle-class consumers from the south are less likely to be inclined than the existing middle-class from the north to pay extra for responsible attributes of commodities. Kaplinsky and all (2007) were perhaps cautiously hopeful for the future, pointing out that for Africa to benefit from dynamic and rapid changing relations with China it must be able to anticipate and adept its capability, for example, promoting tourisms for increasingly affluent Chinese clientele and developing capacity to meet the big needs for food and other agricultural products by China.

Strauss and Saavedra (2009) point out that what has been published on Sino-Africa research to date has been broad brush overview, whether they are policy analysis or opinion piece, with a tendency to reify China as relatively unified, unitary entities while an emerging proliferation of state and non-state actors reveals that the relationships among these different actors are opaque, in flux and not quite what they seem. For example, Chinese state-owned enterprises that have taken up operations in the Zambian copper sector are expected to be, in fact, financially viable like a for-profit commercial identity without aid and support from the state. This leads to the company's pursuit of short-term financial gains at the expense of long-term stability while the Chinese government has perhaps little-influence in company policies given such a financial arrangement. Such complexity of multi actors with different relationships renders implementation of policy recommendations with a view of long-term development objective much more difficult.

In summary, Sino-Africa commerce relationship has drawn great international debates, centering on whether the examined relationship benefits Africa's development adequately.

This is a natural focus since Africa continent is the last stronghold of poverty. There is little consensus on this issue partly due to the complexity and many aspects of this relationship. This paper endeavors to shed light on this question from a different perspective by comparing Africa-China commerce relationship with the Africa and China's commerce relationship with other trade partners. The question asked is whether Africa-China trade relationship is unique, governed by a different set of commercial principles.

III. The patterns of Sino-Africa trade partners

While in 1950s only less than handful African countries exported to China, today almost every country on the continent does so. The burst of China onto international stage facilitates Africa in diversifying its trade partners, thus reducing its risks to primary commodity price shocks and increasing competition among importers of its export. Financial crisis may be a good example to illustrate this point. Currently Africa is experiencing a robust economic recovery with growth rebounded from 1.8 percent in 2009 to 4.9 percent in 2010, slightly lower than its above 5 percent pre-crisis growth rate. If Africa relied on its exports to developed country's markets as it is used to, its recovery would have been more uncertain, given slow recovery in US and Europe, as well as the planned fiscal austerity measures in Europe.

However, not all countries benefit equally from Africa's booming exports to China. As demonstrated in Figure 3, five oil countries, Angola, Sudan, Congo, Gabon, and Equatorial Guinea, account for two thirds of the continent exports to China. Crude oil exporting is capital intensive and does not typically benefit exporting countries' population broadly, especially if governments are weak in collecting tax and managing oil revenue. Besides oil countries, other African countries, mostly countries with minerals, also increased its export to China rapidly (Figure 4).

Figure 3 Oil countries dominate Africa's exports to China

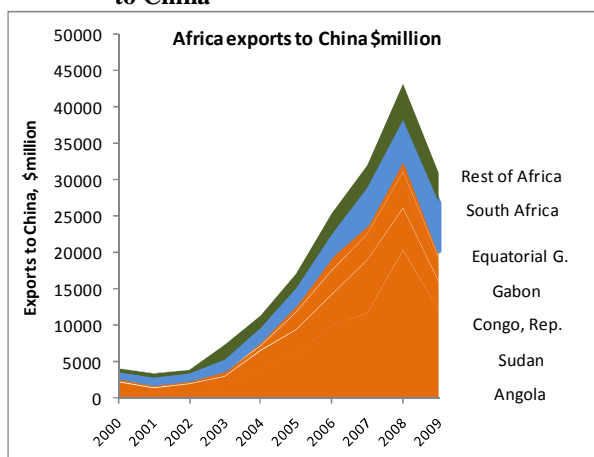
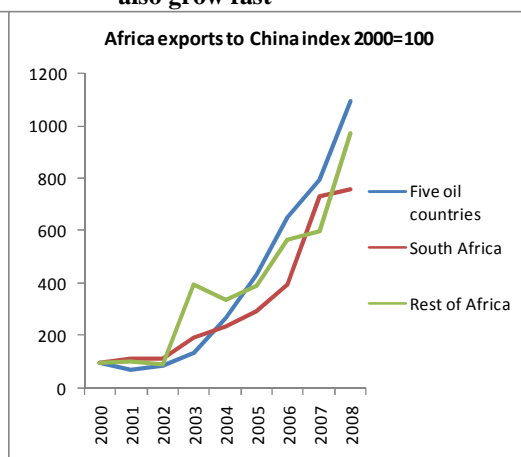


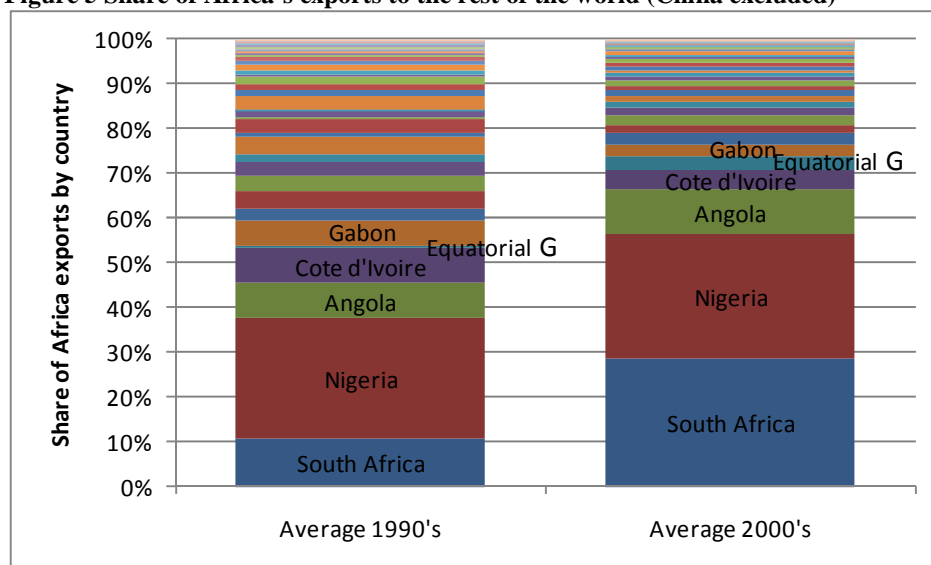
Figure 4 Non-oil country exports to China also grow fast



Source: IMF Direction of Trade database and author's calculation.

While no doubt crude oil dominates Africa's export to China, the concentration of oil exporting, however, is not unique in Africa's export to China. Its exports to the rest of the world exhibit similar pattern. The six largest African exporting countries to the rest of the world are five oil-rich countries, Nigeria, Angola, Côte d'Ivoire, Equatorial Guinea, and Gabon, plus South Africa. These countries have gained larger market shares over last two decades, with their exports to the rest of world accounting for 59 percent of total African exports in 1990s to 77 percent in 2000s (Figure 5). In comparison, the export of the six largest African exporting countries to China accounts for 88 percent of Africa's total exports to China. This reveals that oil-dominating-export is not a unique phenomenon in Sino-Africa trade relationship, but rather it is a phenomenon across board, with somewhat varied degrees.

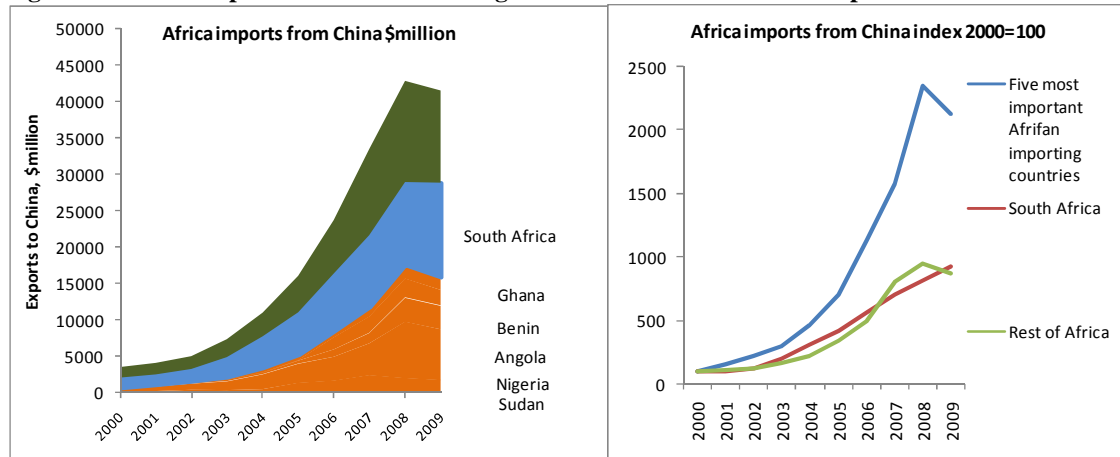
Figure 5 Share of Africa's exports to the rest of the world (China excluded)



Source: IMF Direction of Trade database and author's calculation.

While six countries dominant Africa's export to China, China export to Africa is not limited to a few countries. Notably, the most important six importing countries from China are not all oil countries. They are South Africa, Sudan, Nigeria, Angola, Benin and Ghana, accounting for 70 percent of total African imports from China (Figure 6). This is a somewhat less concentration of trade partners in comparison with the 88 percent of Africa export to China is accounted by the six largest exporting countries. It is worth noting that the growth rate of the top five importing African countries is much higher than the rest of Africa (Figure 7).

Figure 6 Africa's imports from China **Figure 7 Growth rate of Africa imports from China**



Source: IMF Direction of Trade database and author's calculation.

Two characteristics stand out about the geographic patterns of aggregated trade flows between Africa and China, which have been already widely noticed. First, China imports mainly from petro and mineral rich countries. Second, China exports to diverse African countries. This imbalance justifies wide-spread concerns that Chinese economy benefits broadly from Sino-Africa commerce because it imports primarily raw materials from and exports value-added manufactured goods to Africa. Further examination shows that, however, this is also a general pattern of Africa's exports to the rest of the world though to a somewhat less extent. The most noticeable trend is that, however, over the past decade, during which Africa experienced the longest period of robust growth, the dominance of African export by a few oil countries has increased significantly.

IV. Export patterns of Africa and China

A further examination of Africa's export by commodity confirms a general trend of raw material dominated exporting. As shown in Table 1, in early 1990s Africa's raw material export (petroleum and ores and metals) to China accounted for only 42 percent of its total export while a decade and a half later, it accounted for 87 percent. This trend is also true for its export to the rest of the world, the proportion of raw material exports having increased from 56 in early 1990s to 67 percent in late 2000s. Although Africa's dependency on raw material export is not unique in its trade relationship with China, the degree of dependency is significantly more pronounced than it is with the rest of the world. Chinese exporting manufacturing goods is also not unique to Africa. However, China also imports a large proportion of raw materials from other countries, including Brazil, Russia, Latin American countries, and recently Canada.

Table 1 Africa exports by major commodity group

	Average 1992~94		Average 2006~08	
	To China	To rest of the world	To China	To rest of the world
Petroleum	104 16%	20,448 37%	26,200 71%	141,498 53%
Ores and metals	169 26%	10,353 19%	5,974 16%	37,778 14%
Manufacturing products	57 9%	8,200 15%	1,578 4%	29,150 11%
Food	56 8%	9,617 17%	414 1%	24,635 9%
Unprocessed agricultural Products	93 14%	4,003 7%	1,504 4%	6,986 3%
Others	180 27%	3,176 6%	1,267 3%	25,202 10%
Total	659 100%	55,798 100%	56,457 100%	265,248 100%

Source: COMTRADE database and author's calculation.

The pattern of China's export to Africa is very similar to that to the rest of the world. As shown in Figures 8 and 9, the share of China's man-made products, namely, manufacturing goods and transport equipment and machinery, accounts for about 90 percent of its total export, to both Africa and to rest of the world. While the share of China's manufacturing exports to Africa remains high, it has diminished significantly for its export to rest of world. China is apparently moving up the production value chain in its export to the rest of the world, with its share of transport equipment and machinery export having increased from merely 20 to above 40 percent in the last 15 years or so (Annex Table A.1). This is hardly the case for Chinese export to Africa, however.

Figure 8 China's export to Africa

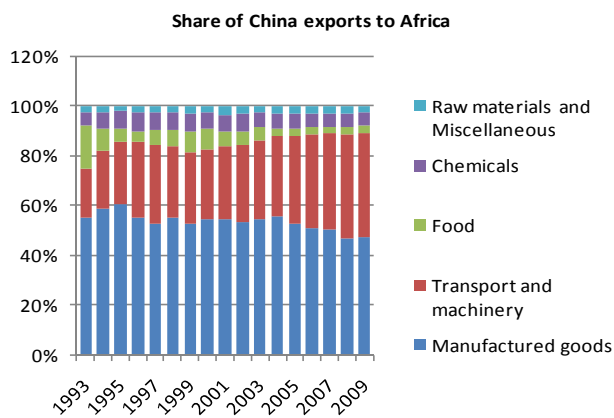
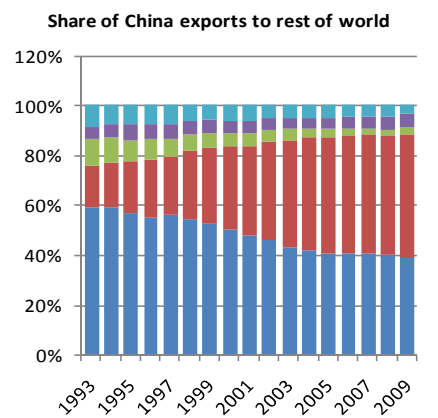


Figure 9 China's export to rest of world

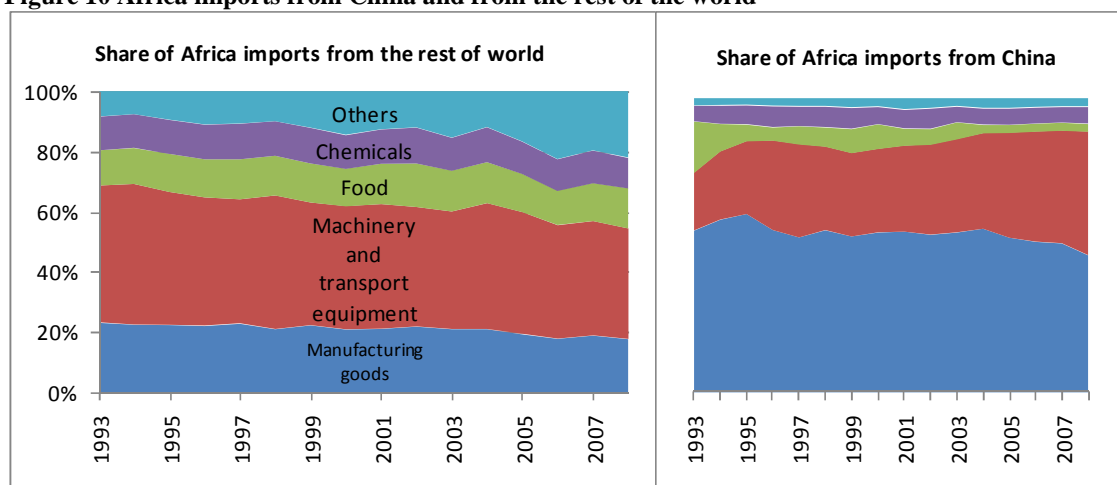


Source: COMTRADE database and author's calculation.

V. Africa and China import patterns

The pattern of Africa's import from China and from the rest of the world is very similar and complementary. Africa imports almost exclusively manufactured goods and processed commodities from the world, including manufacturing goods, machinery and equipment, food and chemicals. As shown in Figure 10, while the largest proportion of Africa's imports from China is manufactured goods, from rest of the world is machinery and transport equipment. This confirms that China is more competitive in exporting manufactured goods, probably mostly in lower-end market, while the rest of the world is more competitive in machinery and transport equipment.

Figure 10 Africa imports from China and from the rest of the world



Source: WITS database and author's calculation.

The patterns of China's import from Africa and from the rest of world, however, could not be more different. Although China imports mostly raw materials from Africa, it imports a large proportion of manufactured goods, transport equipment and machinery, and chemicals from other countries. As demonstrated in Figures 11 and 12, it is apparent that China, besides raw materials, also needs value added products. In fact, value-added commodities account for above 70 percent of total China's imports. But Africa has not been able to capture this market yet. This illustrates that the pattern of Sino-Africa trade pattern can only change if African countries gain significant comparative advantages in value added commodities. This is already happening.

Figure 11 China's imports from Africa

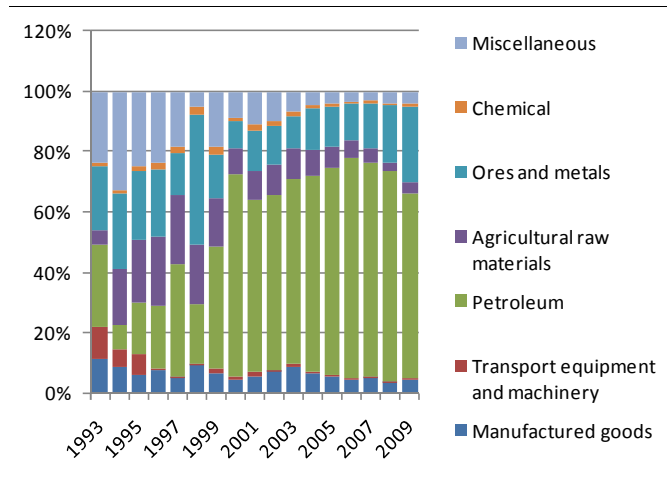
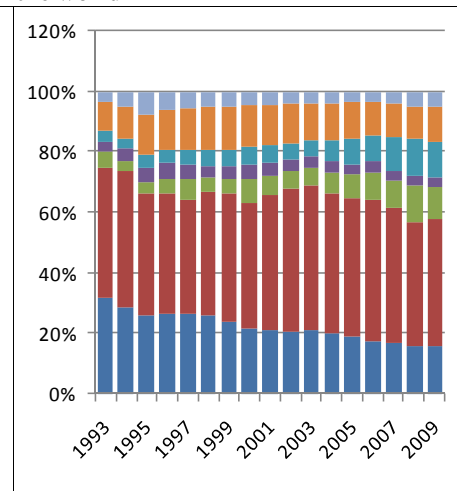


Figure 12 China's imports from rest of the world



Source: COMTRADE and author's calculation.

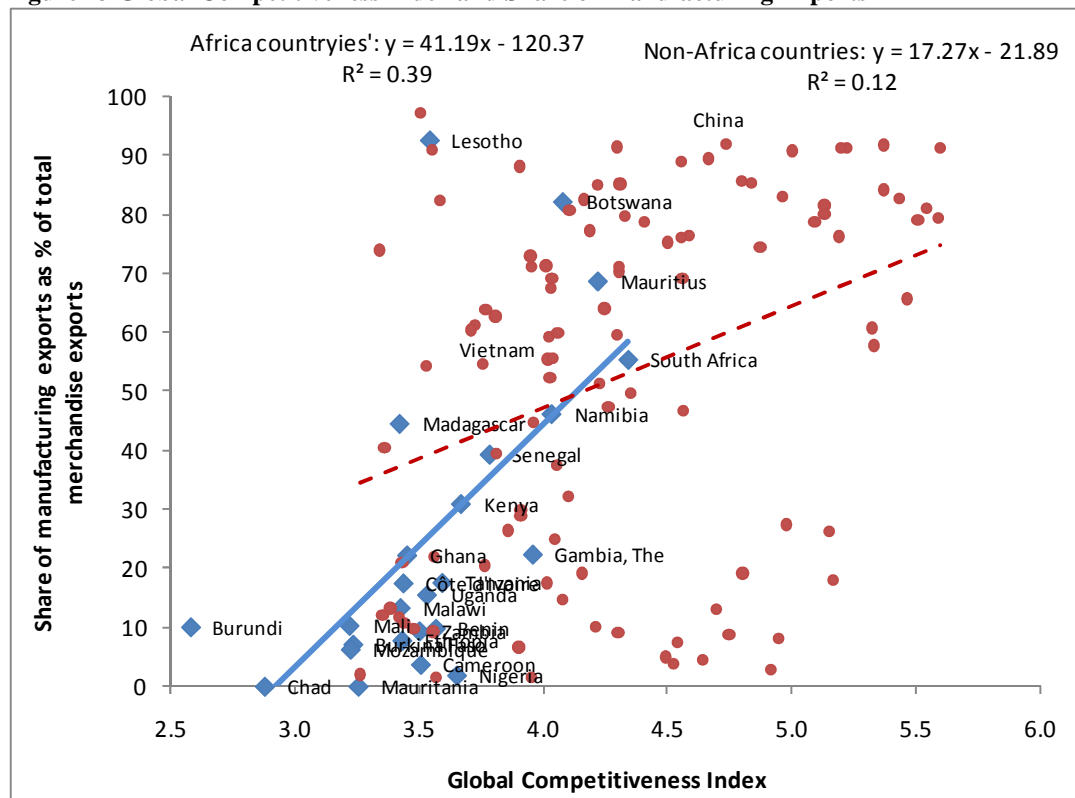
Based on the above comparisons of Africa and China export and import to each other and to the rest of the world, four patterns stand out. First, the pattern of raw material dominated export is the overall Africa's export pattern to the world, not only to China. Second, Africa largely imports value added commodities from China and from rest of world, although it tends to import more manufacturing goods from China while importing more machinery and transport equipment from other countries. Third, China export patterns to Africa and to rest of the world are very similar, transport equipment and machinery, manufacturing goods and chemicals dominant. And fourth, China does import value-added commodities from rest of world, with value-added imports accounting for above 70 percent of its total imports. These facts reveal that the imbalance between Africa's exporting raw materials to China and China's exporting manufacturing goods to Africa has to be rebalanced by Africa's capturing more China's value-added markets.

VI. Comparative advantage of Africa

The question is then why African countries do not export manufacturing or value-added-commodities when China has a great market for it. The simple answer is probably Africa's lack of competitiveness in producing manufacturing goods for both domestic and international markets. For a country to be competitive, it must be able to utilize its human, capital and natural resources to produce goods and services at competitive prices. Each country is endowed with different resources, whether it is human or natural resources. China is a country that was able to turn its comparative advantage, which is well disciplined labor and good infrastructure, to produce manufactured goods for international market. It also avoided head-on competition with established products. For example, while it produced three quarters of world shoes, it does not compete at the luxury market, which is still dominated by shoe makers from developed countries.

According to Global Competitiveness Index (GCI), African countries lag behind (Figure 13) in a global context. CGI is a comprehensive index that measures institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation. A simple regression of share of manufacturing goods as percent of total merchandise export over GCI shows that improving GCI in African countries will give much higher returns in expanding manufacturing exports than countries of other regions.

Figure 13 Global Competitiveness Index and Share of Manufacturing Exports



Source: World Economic Forum, 2010, the Global Competitiveness Report 2009-2010.

However, there are successful African stories in expanding their manufacturing exports despite somewhat unfavorable GCI, such as Lesotho and Madagascar. In the early 2000s, Lesotho pursued an aggressive investment and export promotion strategy just in time to capitalize on the U.S. African Growth and Opportunities Act (AGOA). The government offered investors publicly-owned factory shells at subsidized rents for apparel production and developed internationally acceptable standards on labor rights, compensation and skills. Additionally, the government was also keen on providing business services, including infrastructure, transport and logistics, and expedite customs procedures. Under the apparel strategy the industry has become not only an entry point for a broad range of light manufacturing industries, but also a significant contributor to the economy's growth and competitiveness. The growth of the apparel industry has made immediate contributions to employment and created significant backward and forward value chain linkages in the country.

It should also be noted that manufacturing exports is not the only answer. Any labor-intensive exports should bring a broad-based growth to a country. Thanks to ample agricultural land and good climate, several Africa countries are able to expand their labor-intensive agricultural exports such as Mali's mango exports, Rwanda's coffee, Ghana's cocoa, and Kenya's horticulture. Other initiatives that turned into African comparative advantages into export include tourism in Rwanda and Cape Verde, and transportation hub at Nairobi. Some more daring attempts have even turned comparative disadvantages to advantages, such as Africa Rice Center's new rice varieties NERICA, which have been adapted to the harsh growing environment and low-input conditions of upland rice ecologies in sub-Saharan Africa, where smallholder farmers lack the means to irrigate and apply chemical fertilizers or pesticides.

The issue therefore seems to be why Africa has not scaled up its effort in capturing value-added commodity market in China and elsewhere given its successes in this regard. This is a complex issue beyond the scope of this paper. The case of vuvuzelas made in China for the South Africa World Cup has demonstrated the complexity of the issue, making people scratch their heads (See Box 1).

Box 1 Vuvuzelas made in China: capturing World Cup Spirit and Profit

Vuvuzelas are said to be modeled after the traditional African kudu horn, named for the animal they come from and used to alert neighboring villagers. Vuvuzelas may be the sound of Africa but up to 90 percent of them in South Africa were made in China, industry experts have said.

Jiyong Plastic Products Factory's general manager Wu Yijun said the company's factory in Zhejiang province had sold more than 1 million horns since April, which were exported at prices ranging from 0.6 yuan to 2.5 yuan. However, they were sold for between 18 (about USD 2) and 53 yuan in South Africa. "Most of the profit goes to the dealers and importers. Our profit margin is less than 5 percent," Wu said.

Chinese businesswoman Gua Lili, the owner of Guangda Toy Factory in the eastern manufacturing hub of Yiwu has also produced and shipped more than 1 million of the plastic trumpets. Fans have said vuvuzela enriched their World Cup experiences by creating a sense of participation. "I can't go to South Africa, but blowing vuvuzela while watching the games makes me feel as if I'm among the fans in the stadium," said Cheng Qing, a 25-year-old Shanghai International Studies University postgraduate student.

If you thought the noisemakers' would just fade away after the World Cup ends next month, Gua is betting you're wrong.

"We believe the market for vuvuzela trumpets will expand after the World Cup as people from more countries began to love them," said Gua, "demand was rising in China, Europe and the United States too". Amazon.com has reported a 1,000-percent sales increase of its horns, which sell for USD 9.99. Ebay.com had more than 400 bids for vuvuzelas, with one already reaching USD 17.64.

Watch vuvula making video.

<http://www.ktvl.com/articles/0px-1195769-manufacturer-frameborder.html>

A fierce discussion has irrupted on why China not Africa produces vuvuzela, "The sound of Africa?" So far there are many questions but no answers.

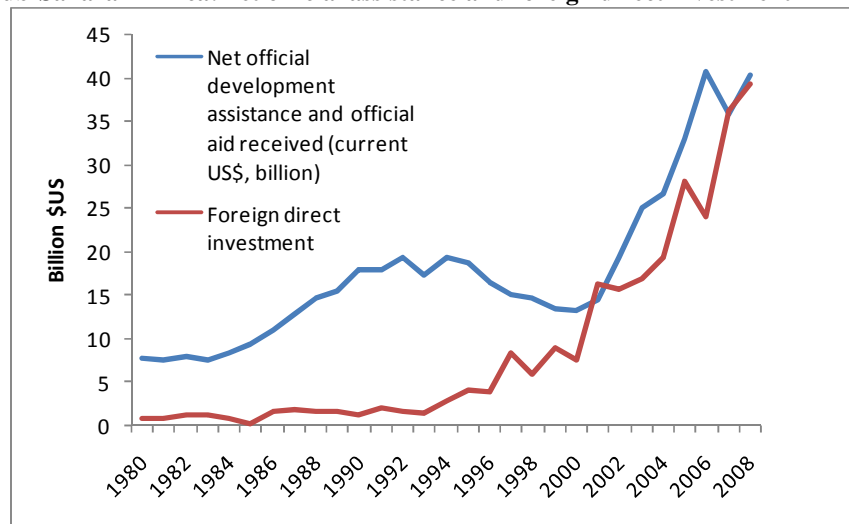
- Chinese labor is cheaper? Factually true but perhaps not the right answer. According to the news report, the out of factory price is about R3, while it is sold in South Africa over R20. African producer would have fared no worse than the Chinese if they kept their labor cost not too high and additionally they would save on transportation cost of shipping bulky vuvuzelas to Africa.
- Technology is too complex? Perhaps not. Look at the picture of the factory floor, the machine and how the plastic is pressed into a trumpet, it does not look like too complex for African producers to master.
- Skill shortage? Look at the lady workers, it does not seem to require a lot of skill.
- The Chinese producers have IP protection? No. It was invented in South Africa.
- African producers have no access to machines or materials? Not look likely, as they are all simple stuff.
- Government policies are different? Looks highly unlikely for any government policy to lead to this result.

Sources: Los Angeles Times, June 22, 2010, "Vuvuzelas made in China"; Deccan Herald, June 21, 2010, "Noisy African Vuvuzelas made in China", Christopher Bodeen (AP), "The vuvuzela: Uniquely African, made in China, and World Bank Staff electronic mail exchanges.

VII. The changing scenery of the global foreign direct investment

At the global scale, Sub-Saharan Africa attracts only less than 3 percent of total foreign direct investment (FDI) while high income countries receive about 70 percent. Traditionally, Africa depended on Official Development Assistance (ODA) for its financing needs as demonstrated in Figure 14. However, since late 1990s, Africa started to attract more FDI, which rivals the ODA today and no doubt will soon replace ODA as Africa's most important financing resources for its investment needs. This should be a welcome development because such a mix will enable Africa to invest in the not profitable sectors, such as infrastructure, education and health, but necessary for private sector to develop, and in profitable activities for private investors, such as service and manufacturing sectors.

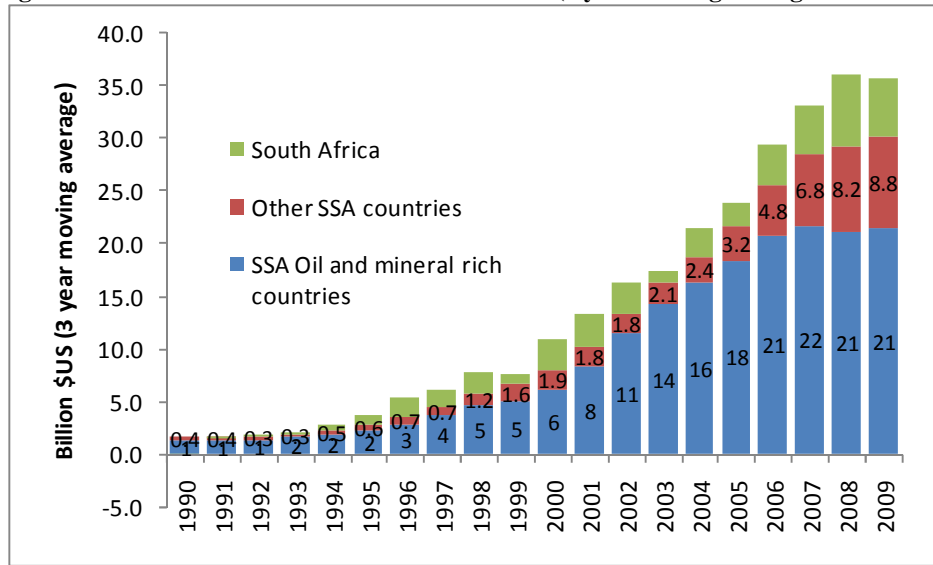
Figure 14 Sub-Saharan Africa: net official assistance and foreign direct investment



Sources: ODA is from WDI while FDI is from IMF WEO, with author's calculation.

Most importantly, although on average more than 80 percent of FDI to Africa goes to oil and mineral countries, recently one sees that FDI start to also trickle in non-resource rich countries, with much higher growth rate than the FDI going to resource rich countries and South Africa (Figure 15). This might signal the beginning of FDI diversifying in Africa.

Figure 15 FDI destinations in Sub-Saharan Africa (3 year moving average billion \$US)



Sources: IMF WEO and author calculation.

Note: Oil and mineral rich countries include Angola, Cameroon, Chad, Congo R, Equatorial Guinea, Gabon, Nigerial, Sudan, Botswana, Central African Republic, Congo DR., Guinea, Nambia, Sao Tome and Principe, Sierra Leone, and Zambia. The classification is based on Page's classification.

The explosion of Africa-China trade has certainly facilitated rapid increase of China's investment in Africa, although Chinese out-going FDI is still insignificant at global level. While United States invested close to \$US 400 billion abroad in 2007 China invested only \$US 17 billion. However, new middle income countries, China included, are starting to gain visible share in global FDI. Before 1990s, high income countries account for close to 100 percent of the world FDI while in 2010 they account for less than 90 percent. Middle income countries (excluding China) have carved out a market close to 7 percent of global market while China gained a market share close to 5 percent (Figure 16). As shown in Figure 17, most remarkably, while high and other middle-income countries reduced their FDI abroad dramatically during the financial crisis, China's FDI continues on a path of rapid growth.

Figure 16 Share of Global FDI abroad

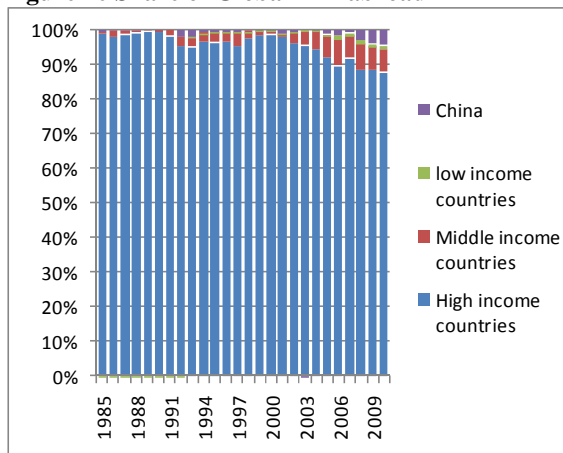
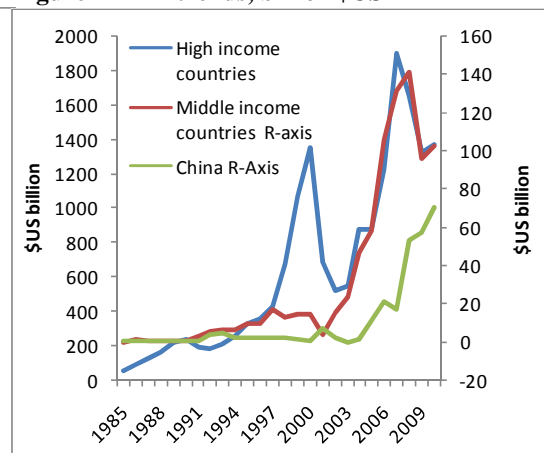


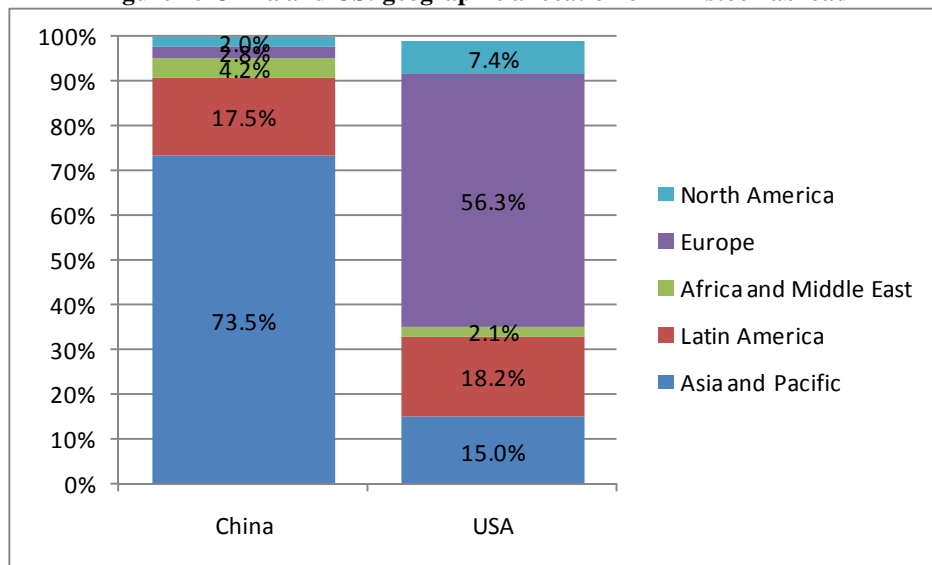
Figure 17 FDI trends, billion \$US



Source: IMF WEO and author's calculation.

A comparison of China and US FDI allocation abroad reveals that China's FDI abroad is mostly based on its comparative geographic advantage and avoids head-on competitions with established economies. While majority US FDI abroad is in Europe and Latin America, China's FDI focuses on Asian and Latin American countries (Figure 18). As of 2008, China's FDI stock is only equivalent to less than 6 percent of United States' FDI stock abroad. But China puts more emphasis on Africa than US does. Additionally, while China allocated 12 percent of its FDI in mining sector, US allocated only 5 percent.

Figure 18 China and US: geographic allocation of FDI stock abroad



Sources: Chinese Ministry of Commerce; US Bureau of Economic Analysis International Economic Accounts, <http://www.bea.gov/international/di1usdbal.htm>.

It appears that China has been investing in locations and industries where it is profitable for Chinese given the intense domestic competition but less attractive for investors of developed economies. Comparing to other regions, Africa gets relatively small portion of the total world FDI. The question then is how Africa can attract more investment and more importantly, how to drive good bargains and to utilize FDI to advance its development agenda. In this sense, China's FDI in Africa should be welcome because it increases competition, provides Africa with more bargaining power, and raise Africa's international profile.

There should be no illusion that the objective of Chinese investors is different from those of developed countries. Since the economic reform in 1985 China's interest in Africa has shifted from primarily gaining political alliance for communist ideology to gaining economic profit (Box 2). All Chinese actors active in Africa, including the government, are keenly aware of the strategic importance of Africa to China's continued economic development. During the colonial era, Africans had no voice and power over their own destiny due to international acceptance of using arms and force to exploit other countries' wealth. Time had changed since the end of colonial era. Open foreign military aggression is hardly a choice anymore. Now the most viable options are to use political and financial

negotiations to gain access to Africa's vast natural resources. Therefore, it is possible for Africans to drive a hard bargain and to strategically use FDI to build a broad-based and sustained growth for the continent.

Box 2 Main Chinese Actors active in China and their motives

Not only China's dazzling advancement in Africa causes uneasiness but also the perceived well-coordinated effort and disciplined approaches to benefit from Sino-Africa commerce relationship is threatening. Mr. Dijk made a summary of Chinese actors active in China and their motives as cited below (with author's modification). But other authors have seen a much more complex economic and political relationship among Chinese actors, discarding that Chinese advance in Africa is politically and economically coordinated (Strauss and Saavedra 2009).

Main actors	Main motive
The Chinese government	Implement the government's strategy of "Go out" with respect to Africa and coordinates the activities of different actors, providing official economic assistance
State-owned enterprises	To source raw materials needed for sustaining Chinese fast growth
Private Chinese companies	Seek easier profit making opportunities in Africa given cut-throat competitions in China
The Chinese Embassy	Act as investment and trade promotion agents on behalf of Chinese government for Chinese citizens
Chinese people	Similar to private Chinese companies, driven by very strong economic incentives with a short- to medium-term horizon

Source: Dijk, Meine Pieter van, ed., 2009, *The New Presence of China in Africa*, Amsterdam University Press.

As new comers, Chinese investors are no doubt making many mistakes in Africa, partly due to language barriers and lack of international standards of practicing business within China. Frequently, Chinese investors are not well informed and educated to follow international labor, safety and environmental standards. Labor unrest and scandals of unsafe consumer goods are also common occurrences within China. While Chinese government and investors do have incentives to practice good business behavior in Africa, their incentives are very different from those of African governments and people. The incentives of Chinese investors are to get by with international and host country business practice standards with minimum expenses, thus maximum their horizon of profit making, while African governments and people have incentives to use FDI to increase employment, improve living standards of people and most importantly, to develop domestic production capacity that will benefit the country long after Chinese investors are gone. There are overlaps between their incentives, but how to share the benefits of FDI between investors and locals must be negotiated.

Indeed, reporting a truth finding trip on the entire duration of the Tazara line, built by China in the early 1970, Howard French, a journalism professor at Columbia University, wrote an article entitled "The Next Empire", finding parallels between Beijing's current strategies and those pursued by Germany during the European colonial period, namely connecting the continent with transportation networks. He also found plenty of dissatisfactions about Chinese FDI, ranging from unregulated mining activities run by small-time fortune seekers to mega contracts worth billions of dollars signed with

corrupted governments, benefiting chiefly Chinese and high African officials but leaving local people with little.

The issue remains that, however, Africa needs to double its historical financing flows (public and private) of \$US10 billion per year to meet its infrastructure development needs. Based on the World Bank estimate, between 2006 and 2007, China has put more than 5 billion \$US per year into Africa's infrastructure.² One thing that both pro- and against-Chinese camps on its African FDI in infrastructure agrees is that Chinese start and finish its infrastructure project cheaply and fast, faster than any of other competitors. The question is whether Chinese infrastructure FDI help advance Africa growth despite frequently-mentioned faults such as poor quality, low usage of road due to political influence (e.g. roads pass through high officials' estates situated in nowhere), low capacity building, and low technology transfers. Shortcomings withstand, a World Bank publication concludes:

“The advent of China and other non-OECD players as major financiers presents itself as a hopeful trend for Africa, given the magnitude of its infrastructure deficit. The aid provided by the emerging financiers is unprecedented in scale and in its focus on large-scale infrastructure projects. With new actors and new modalities, there is a learning process ahead for borrowers and financiers alike. The key challenges for African governments will be how to make the best strategic use of all external sources of infrastructure funding, including those of emerging financiers.”³

Although most visible is China's FDI mega infrastructure and mining projects in resource rich countries, much “quieter” FDI also increases in manufacturing and services sectors if conditions are right. For example, between 1994 and 2006, China had total of 223 projects registered in Ghana. Of them, 76 were manufacturing projects, 131 in service sector, 11 in building construction and 5 in agriculture sector.

Broadman in his book “African Silk Road” reached similar conclusion as was in the infrastructure study mentioned above:

“...a key issue facing the countries of Sub-Saharan Africa is how they can successfully leverage the newfound investment and trade interest of China and India so that the continent can become a more proactive player in modern global network trade.”⁴

He observes that Chinese and Indian firms operating in Africa have been playing a significant role in complementing local business and investment activities rather than substituting them. Chinese and Indian businesses tended to achieve larger-sized operations than did their African counterparts within same sectors and had significantly greater export intensity than did African firms. He points out that the ever expanding global value chains offer real opportunities for African countries to use Chinese and Indian investment and trade activities to increase the volume, diversity and value-added

² Foster, Vivien, et al. 2009.

³ Same as above.

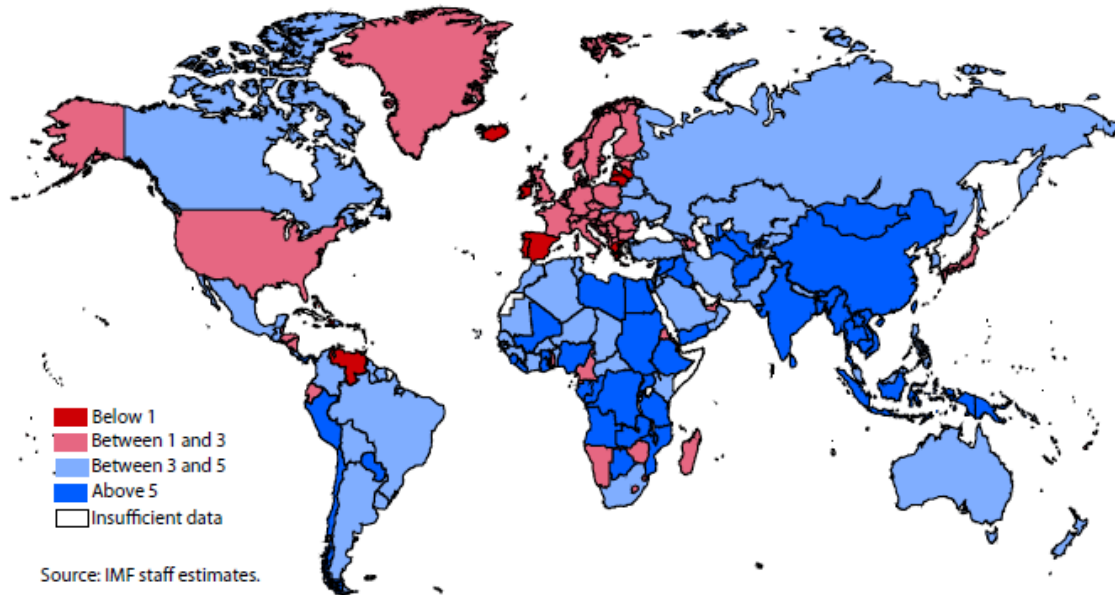
⁴ Broadman, 2007.

exports from the continent. Anecdotal evidence suggests that, however, in some cases Chinese firms do substitute local industry with their more efficient production and management.⁵ Chinese merchants in Africa also operate at very low level revenue, competing with local small shop owners.

VIII. Concluding Remarks

It is no doubt that China's ferocious economy growth benefits from Africa's supply of raw materials. But Africa's economies no doubt also benefit from high commodity prices, thanks to China's healthy appetite for raw materials. African consumers, at least in the short run, also enjoy the benefit of cheap Chinese manufacturing goods. Before China came on to the international stage, Africa repeatedly subjected to commodity price shocks and imported most of manufactured goods from high income countries, where labor is expensive and thus costly manufactured goods. It might not be a pure coincidence that Africa is currently experiencing the longest uninterrupted growth since 1960's. Between 2000 and 2009, in which period China and Africa's trade accelerated, Africa maintained an annual GDP growth above 3 percent and 5.6 percent between 2003 and 2008. Most impressively, while GDP growth among advanced economies tumbled to 0.5 percent in 2008 and -3.2 percent in 2009, Africa held up a GDP growth of 5.5 percent in 2008 and 2.1 percent in 2009. African countries are among the recovering countries from the financial crisis. IMF predicts that Africa will rebound quickly to its above 5 percent growth path in 2010 and 2011 (Figure 19).

Figure 19 Average Real GDP Growth during 2010-2011



Source: IMF, April 2010, World Economic Outlook, Rebalancing Growth, Figure 2.1.

⁵ A conversation with World Bank Economist Yutaka Yoshino, who observes that at Arusha Tanzania a Chinese furniture factory makes furniture for the local market, replacing traditional local furniture makers.

In summary, the Africa trade and investment relationship with China, as well as with other emerging economies, is determined by their comparative advantages in the context of globalization, so is China's trade relationship with Brazil, Canada, and Russia. While Chinese fast growing economy has definitely benefited from Africa's raw materials, Africa has also benefited significantly from its commerce relationship with China and other emerging economies, as evidenced by its outstanding growth performance during the financial crisis. The question is how Africa can benefit more from its association with emerging economies, especially with China by capturing China's vast market for value-added commodities. Since China endeavors to move up the value chain in the international market, it would be a win-win relationship for China to collaborate with Africa to facilitate its quest for industrialization that will produce a second phase of its renaissance to benefit majority of its population. Africa, however, must play a leading role in insisting its rightful share of its benefit resulting from the trade and investment relationships with China, with other emerging economies, as well as with the developed countries.

On a grand scale, there is little difference between Africa-China and between Africa-rest of the work commerce relationship. Therefore, China should be treated as one of Africa's economic partners and be considered in an Africa's global context.

However, at firm and individual level, Chinese do have their specificities differing from investors from developed world. For example, a large number of Chinese investors are more than willing to invest at much smaller scale enterprises and pop-and-mom shops than traditional investors from richer countries. The sheer number of them could create significant frictions with local small-scale investors. In addition, these small entrepreneurs came from an environment that rule of law and regulations are not yet well established, therefore their standard of behaviors left much to be improved. Acquiring a non-Chinese language is a formidable task for a Chinese speaker due to the fundamental differences between Chinese and any other non-Chinese languages. This probably plays a no small part in Chinese investors' tendency to isolate from local societies and to hire their own people if everything else is equal. So far, very little is known about this segment of the Chinese investors and their relationships with host countries. Chinese specificities need to be dealt with specific policies and regulations that both hosting countries and Chinese government should endeavor to find amicable solutions.

Time has changed since the colonial period. African countries have learned a great deal from its dealings with powerful countries after its natural resources. It is hopeful that both investors and host countries will advance on a path to mutual prosperity since this is the only way that such relationship can be sustained.

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Appendix

Table A.1 China export by commodity group, as share of total (percent)

	Manufactured goods		Transport and machinery		Food		Chemicals		Raw materials and Miscellaneous	
	To Africa	To rest of world	To Africa	To rest of world	To Africa	To rest of world	To Africa	To rest of world	To Africa	To rest of world
1993	54.8	58.9	19.7	16.6	17.5	10.8	5.5	5.0	2.6	8.7
1994	58.4	59.0	23.3	18.0	9.3	10.1	6.5	5.1	2.5	7.7
1995	60.3	56.8	24.8	21.1	5.7	8.3	6.8	6.1	2.3	7.8
1996	54.9	55.0	30.4	23.3	4.5	8.3	7.5	5.9	2.7	7.6
1997	52.4	55.8	31.7	23.8	6.1	7.2	6.9	5.6	2.8	7.6
1998	54.9	54.4	28.4	27.3	6.6	6.6	7.3	5.6	2.8	6.0
1999	52.8	52.8	28.4	30.2	8.2	6.0	7.4	5.3	3.3	5.7
2000	54.1	50.2	28.5	33.2	8.4	5.4	6.1	4.8	3.0	6.4
2001	54.4	47.8	29.2	35.8	5.8	5.3	6.6	5.0	4.0	6.1
2002	53.3	46.0	30.7	39.1	5.3	5.0	7.2	4.7	3.6	5.2
2003	54.1	43.1	31.7	43.0	5.7	4.4	5.6	4.4	2.8	5.1
2004	55.3	41.5	32.5	45.4	2.9	3.5	5.8	4.4	3.5	5.1
2005	52.3	40.8	35.8	46.4	2.7	3.2	5.8	4.7	3.5	4.9
2006	50.9	40.5	37.5	47.3	2.8	2.9	5.6	4.6	3.2	4.7
2007	50.4	40.6	38.4	47.6	2.7	2.7	5.5	4.9	3.0	4.2
2008	46.4	40.2	42.0	47.2	2.7	2.5	5.9	5.5	3.0	4.5
2009	47.4	39.0	41.2	49.4	3.0	2.9	5.9	5.1	2.4	3.5

Source: WITS COMTRADE database and author's calculation.

Table A.2 Africa import by commodity group, as share of total (percent)

	Manufactured goods		Transport and machinery		Food		Chemicals		Raw materials and Miscellaneous	
	From China	From rest of world	From China	From rest of world	From China	From rest of world	From China	From rest of world	From China	From rest of world
1993	54.8	23.2	19.7	45.5	17.5	11.9	5.5	11.0	2.6	8.3
1994	58.4	22.5	23.3	46.8	9.3	12.1	6.5	11.1	2.5	7.6
1995	60.3	22.4	24.8	44.2	5.7	12.8	6.8	11.2	2.3	9.4
1996	54.9	22.2	30.4	42.6	4.5	12.8	7.5	11.4	2.7	11.0
1997	52.4	22.9	31.7	41.3	6.1	13.4	6.9	11.7	2.8	10.7
1998	54.9	21.0	28.4	44.4	6.6	13.4	7.3	11.3	2.8	9.9
1999	52.8	22.3	28.4	40.8	8.2	13.2	7.4	11.7	3.3	12.0
2000	54.1	20.9	28.5	40.9	8.4	12.6	6.1	11.1	3.0	14.4
2001	54.4	21.1	29.2	41.4	5.8	13.6	6.6	11.3	4.0	12.5
2002	53.3	21.9	30.7	39.7	5.3	14.6	7.2	11.8	3.6	12.0
2003	54.1	21.1	31.7	39.0	5.7	13.8	5.6	10.8	2.8	15.3
2004	55.3	21.1	32.5	41.8	2.9	13.8	5.8	11.5	3.5	11.8
2005	52.3	19.4	35.8	40.5	2.7	12.9	5.8	10.7	3.5	16.6
2006	50.9	17.8	37.5	37.7	2.8	11.7	5.6	10.4	3.2	22.4
2007	50.4	18.9	38.4	38.0	2.7	12.8	5.5	10.8	3.0	19.5
2008	46.4	17.7	42.0	36.7	2.7	13.6	5.9	10.1	3.0	21.9

Source: WITS COMTRADE database and author's calculation.