

“China & India : What’s in it for Africa?”

OECD Development Centre Experts’ Meeting, held in Paris on 16 and 17 March 2006

SYNTHESIS

With the integration of China *and* India – the “Asian Drivers” – in the world economy gaining momentum, it is ever more manifest that economy and polity in poor countries will be affected in various, complex ways. The sheer size of the Asian Drivers, their phenomenal rate of growth, their hunger for natural resources, and their growing economic and political power ensure that they will re-shape the world economy and influence the rules of the game. Their growing presence is likely to transform past relationships in a number of key respects, providing both competition and opportunities not just to the major trading partners in OECD countries, but also to developing countries and other emerging economies.

Therefore, innovative policy responses to the Asian Drivers have to be devised. And they will be needed for the long term, as the giants’ rise is unlikely to be only transient. After all, Angus Maddison’s historical data show that China, in terms of percentage share of world GDP, is just getting back to where it had been around 1820. Further, a global shift of skill-intensive production to Asia is leading to a Pan-Pacific production system, characterised by increasingly dense networks of highly-skilled workers and the creation of MIT-style institutions in Asia.

In this regard, the impact of the Asian giants’ integration on Africa has been largely ignored. Africa is first and foremost linked to the world economy through raw materials and related concessional and direct investment flows, with noteworthy exceptions mostly in Northern and Southern Africa (clothing & textiles, furniture, processed food). Africa is hence by and large benefiting from the China-driven ‘super cycle’, which is reinforced by India’s emergence. A well-attended, high-calibre experts’ meeting organised by the OECD Development Centre, and co-sponsored by the Swiss Agency for Development & Cooperation (SDC) and the Agence Francaise de Développement (AFD), set out to deal with the following questions:

- Does Africa benefit from the ‘windfall’ in raw materials?
- How can it best exploit the rise of the Asian giants?
- What are the risks to economic diversification, long-term development and poverty eradication on the continent?
- How, if possible, can these risks be contained?
- Do donors need to reconsider whether existing policies aimed at reducing poverty have to be changed in the light of China and India’s expansion?

It will be impossible to do full justice to the detailed analyses and statements of the meeting, but here is what can be retained:

1. China and India's economic rise and the integration of their huge labour pool into the world economy exert a **unique impact** on poor countries, which results from:

- i) **size** of population, income, assets
- ii) **growth** of population, economic activity, assets
- iii) **economic linkage intensity**: trade, finance, migration, human capital, environment
- iv) **diplomacy & global architecture**.

2. **Size:** For many individual markets, China and India's size means that the small-country assumption underlying much trade analysis does not hold. This has a large and positive impact on Africa's terms of trade, notably for energy (oil) exporters. Thanks to the 'super cycle' initiated by the industrialisation and urbanisation of the two Asian giants, prices of most of Africa's exports have either stopped to fall or even reversed into a rise. Africa is also benefiting from falling prices of labour-intensive manufactures and hence higher purchasing power for consumer goods.

However, the two giants may be tempted to dampen raw material prices down by either tariff and/or quantitative measures, as better terms of trade would raise their welfare. Insofar as WTO membership reduces policy space, other interventions, such as price ceilings imposed on soya beans in 2005 and on iron ore more recently, can be envisaged.

Finally, while it is true that these days China's presence is much more felt in Africa and other poor regions than India's, the rapid ageing of China's population and India's still high fertility rates will soon combine to make India the world's most populous nation.

3. **Growth:** While high, growth has been volatile in both China and India as a result of transition crises, balance-sheet problems, and lack of macroeconomic fine-tuning instruments. For raw material markets that are relevant to Africa, this growth volatility in the Asian Drivers translates into important swings in net trade positions and hence prices (e.g. cotton prices). Such volatility is bound to persist.

As for future growth prospects, some potential constraints were identified: water supply, environmental degradation, bank finance, poor governance potentially leading to discontent (in China in particular). It was felt that these constraints could weigh less in India, where a big constraint is a structural public deficit. So may China slow and India accelerate?

Technological progress may make Asian growth sustainable, however, with strong pull effects for Asian neighbours and for internal labour markets. In the longer run, comparative advantages of the Asian giants are seen to be shifting away from low-skilled labour intensive goods and towards skill-intensive goods and services.

4. **Economic linkage intensity:** Recent growth performance suggests that Sub-Saharan Africa is a net beneficiary of intensified economic linkages with the Asian Drivers. Exports are booming, export prices have been supported, and consumer imports become more affordable. Most notably, net exporters of crude oil, metalliferous ores, woods, and precious stones have benefited from strong Asian demand growth.

Financial flows are on the rise as well. China in particular, has become a large provider of infrastructure loans. For HIPCs, such flows arrive in an environment which is largely debt-free following the Gleneagles debt agreement in 2005. For other countries, China and India (and other emerging economies) substitute for lack of progress in reaching an agreement with the IFIs – China’s \$2bn export credit loan to Angola is a much-quoted example. FDI activity from China and India is on the rise as well, at times governed by ethnic links and political considerations. There is concern that such new flows are not in line with the debt tolerance of the poorest countries with low governance scores, especially as little conditionality seems to be attached. At the same time, China seems to be closely monitoring the use of its loans.

To be sure, the dismantling of the Multifibre Agreement has threatened to damage clothing exports in the Maghreb and in Southern Africa. Moreover, Africa shares with Latin America the disadvantage of not being part of Pan-Asian production networks. In labour-intensive products and services, the growing competition that result from the integration of the Asian Drivers’ labour pool cautions against industrialisation strategies that run into the headwind of Asian competition. It will be important for Africa to develop activities that are complementary, rather than substitutive, to Asian growth and to identify opportunities to leapfrog from the primary to the service sector. Such strategies should not ignore the potential for intra-regional and intra-industry trade, both largely unexploited in Africa.

Such strategies will also have to envisage the changing nature of Asian growth. To the extent that such growth is higher than elsewhere, it will imply trend real appreciation. Real currency appreciation will stimulate

- a move of the Asian giants’ spending pattern from domestic capital formation and construction towards domestic consumption of raw materials. This may imply a demand shift from industrial metals toward soft commodities, reinforced by changing eating habits;
- an upgrade of the skill-intensity of exports and a stimulus to imports of low-skill goods; this will bring about more competition with middle- and high-income countries and greater FDI outflows to poorer countries.

5. Government diplomacy & global architecture China and India are hugely popular in Africa, at least with governments and urban consumers. Political relationships between the Asian Drivers and Africa have always been deep; they did not start with the current boom, although high-level political travel diplomacy has been identified in recent years. The Chinese are increasingly present in Africa; the Indians had a traditional presence in East Africa. That presence is not limited to air-conditioned offices in the capitals, but spread throughout all regions and layers of African countries – participants referred to “repopulation” and “discovery of space”. This presence (especially in ‘fragile’ states) has very practical implications – for instance in the distribution of Chinese consumer goods and Indian generic drugs, even in remote areas. The increased Asian presence must be seen against the background of the retreat of the West.

The Asian giants’ popularity seems supported by three elements in particular:

- Economic co-operation does not undermine sovereignty, as the principle of political non-interference is upheld; loans are provided “without conditionality” (although the

use of money is strictly monitored), and infrastructure is built without delay (although aid is tied is local labour content is correspondingly little). This approach contrasts with that of Western donors, which is perceived as burdensome as a variety of standards, governance rules and conditionality items are attached to development co-operation: too much talk, too little practical action.

- The presence of China and India equals more political and economic diversification and less dependence on the United States and Europe. As the competition for raw material resources intensifies, Africa's political bargaining power is strengthened. Moreover, Africa accounts for well over a fourth of UN member states and this is obviously important in fora that are governed by the one-member one-vote principle. Nonetheless, such perception overlooks the risk of growing African dependence on one client, namely China, in a mono-export structure.
- The government-to-government approach emphasised by China and India seems welcome in Africa, as the potential for the private sector to contribute to development may have been oversold in comparison to what has been achieved. Insofar as development is often about co-ordination failure, a public approach to solving the co-ordination of raw material extraction, transport, processing and sales is potentially fruitful.

Obviously, neither that presence, nor Africa itself, are homogenous. Good reason therefore to explore the Asian Divers' impact through more country studies.

Should the donor community engage the Asian giants on commitment-oriented dialogue? or, alternatively, should it convert to low-conditionality cooperation with Africa? The engagement with the Asian giants would have to include.

- An attempt to establish transparency on the scope and terms of financial co-operation between the Asian donors and Africa, in order to avoid the build-up of unsustainable debt stocks.
- The promotion of DAC standards, such untying of aid, in ways that are not perceived as patronising.
- A harmonised, more unified approach by bilateral DAC donors in Africa, as governments prefer to deal with few big countries rather than strain their weak apparatuses with many small donors.

It was made clear that neither China, nor India, nor Africa anymore can be 'bossed' around by Western donors. Global diplomacy is witnessing a tectonic power shift just as does the global economy. Before the OECD community can approach China and India and engage on new terms, therefore, it has to reflect upon what it can offer to them.