

The Rise of China and India: What's in it for Africa?
An OECD Development Centre Project

The Asian drivers and Africa – learning from case studies

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The main drivers of economic globalization have historically been Western developed countries, and as such, they have impacted developing countries, in both positive and negative ways. This is seemingly changing rapidly. In this early part of the 21st century, developing countries – or emerging economies as they are increasingly labelled – have contributed for more than 50% of world GDP growth. In fact, it is fair to say that for the first time in modern history, non-OECD countries, and China in particular, are in a position to influence and perhaps shape the global economy. What can be expected from these new engines? Will they unfledgedly promote a more ethical economic development worldwide vis-à-vis other developing countries, or will they behave the same way Western developed countries have acted for most of the post-WWII years – that is through a mix of not always coherent policies, balancing realism and idealism, pragmatism and rhetoric, protectionism and development cooperation?

The papers included in this mini-symposium form part of a broader project that the OECD Development Centre, with support from the Swiss Development Cooperation and the French Development Agency, launched in late 2005 to document the economic, political and social impacts of China's and India's economic growth on sub-Saharan African (SSA) countries. Goldstein *et al.* (2006), in a macro-study, identify the conduits of China and India's contribution to global growth, illustrated with examples like the rise of energy, steel use, and shares in world imports of the two Asian Drivers. Although the price of natural resources is volatile, its recent rise has contributed to the improvement in Africa's purchasing power of exports and in its terms of trade. Over the last five years, Africa's trade with China and India has also increased dramatically, reorienting trade away from OECD countries. In the case of Sudan, for example, 40% of its exports in 1995 went to the industrialized countries. Ten years later, less than 20% of its products are destined for these markets, and China's share has increased from less than 10% to 40%. Likewise, Chinese and Indian foreign direct investment is very present in the case of natural resources and is also increasing in such sectors as telecommunications: for example, Distacom of Hong Kong became the strategic investor in Telecom Malagasy (Telma) in Madagascar.

On the negative side, the African export mix remains dominated by raw materials, merely a small share of FDI supports diversification into new manufacturing and services activities and the risk of a rapid appreciation of the real exchange rate lingers behind the prospects of higher commodity prices. In a nutshell, the rise of China and India may be pushing Africa still further towards the "raw material corner". Governance issues are also attracting more and more attention. The Asian Drivers' governments and companies are not very active takers of the rules embodied in different instrument, touching on issues such as standards and codes in extractive industries, transparency in government procurement, and corporate social responsibility, which are meant to govern the relationship between Africa and the rest of the world. The World Bank's *Silk Road* report (Broadman 2006) and others (Kennan & Stevens (2005), Jenkins & Edwards (2005)) reach similar conclusions.

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Although conventional analysis still tends to regard Africa as a monolithic continent, not all African countries are on an equal footing when it comes to reaping the benefits of higher commodity prices spurred by China and India's demand for commodities. Far from being homogeneously rich in natural resources, there are big differences among African trade patterns at the country level. A large number of African countries are net importers of mineral fuels, oils and distillation products and some of them (although in limited number) are net importers of crude materials. In this context, in their search for commodities, resource-poor African countries may regard China and India as competitors. Some African countries may even bear the brunt of rising commodity prices. Hence the case for examining the impact of China and India at a microeconomic level throughout country and sectoral case studies. Four countries have been selected: Angola, Senegal, Ethiopia and Kenya (with a focus on the footwear and clothing industries respectively). A sectoral study pertaining to the clothing sector in SSA has also been conducted. Selection of countries with dissimilar endowments (raw commodity potential, degree of diversification, institutional development) makes it possible to seize the various forms of Asian Drivers' involvement on the continent, their differentiated impacts on local economies and the specific challenges that are faced by each type of African economies. How do for example countries that have no raw material on offer benefit from the Asian increasing presence on the continent (outlets for their non commodity exports, destination for FDI and development assistance)? Will the Asians' relative indifference vis-à-vis governance standards potentially reinforce a resource curse? How does China's and India's presence in individual countries compare with Western countries' involvement? What role do diasporas play?

The countries examined in this issue have different characteristics, which in turn frame their respective interactions with the Asian Drivers. Aguilar and Goldstein study the case of Angola, a country that has emerged in very recent years as a major trading partner for China. In fact, this is one of the world's few countries with which China registers a trade deficit and this is one of the underlying reasons for the enthusiasm with which Beijing is ready to extend new loans to Luanda. But Angola is also an increasingly important strategic source of oil for other countries, and the government has skillfully played out this rivalry to its advantage. The first lesson is in fact that dancing to the tune of China may be a mixed blessing for African countries, of which policy-makers are well aware.

According to Hazard *et al.*, Senegal is in the peculiar position of having a more advanced partnership with India than with China. Authorities are now trying to make up the ground they have lost in 1996-2006, when Dakar switched its diplomatic relations from Beijing to Taiwan. It is easy to see the political gains and the possible benefits from investment, technology transfer or development cooperation that Senegal expects to reap from an enhanced partnership with the Asian Drivers. Outside of investments in phosphates and fisheries, the latter's interest in Senegal, however, appears limited. As a matter of fact, China's already notable involvement in such sectors as fishing may worsen some of the country's structural difficulties, i.e. overfishing and the depletion of sea resources. Overall, Senegal appears to be more of a logistical and commercial centre for Chinese and Indian importation and re-exportation, than as a production base for regional or foreign markets. Additionally, the amount of official development assistance put forward by China and India, although highly symbolic, is in fact almost irrelevant in financial terms. The image Senegal aims to portray is that of a regional gateway, thanks to its geographical position, good infrastructures (at least compared to other countries in the region), political stability, and engagement to pan-African causes (especially insofar as NEPAD is concerned). While these arguments may win friends in America and Europe, a second lesson to be drawn is that this line of reasoning may not be sufficient to concretize ties with China and India.

The cases of Kenya and Ethiopia are studied by Kamau and Tegegne. These countries have relatively diversified economies (at least by SSA standards), with light manufacturing industries in particular playing a significant (and until recently growing) role. The rise of Asian competition (locally, regionally and on third markets), partly due to the erosion of trade preferences for clothing and footwear, confronts these two countries with new challenges. The specific relevance of the clothing industry in the analysis of China's

and India's impact on Africa is manifold: this is a low-skilled labour intensive industry, and hence an avenue for African economies' diversification; the competition of Asian producers vis-à-vis the SSA clothing industry is felt at the local, regional and global level (on third markets): it is therefore *direct* and *indirect*; also, Asian Drivers' impact on African clothing industries has both a *trade* and *investment* dimension while being *competitive* and *complementary*.

Kaplinsky and Morris assess the indirect impact on SSAs outward oriented industry of China's growing global manufactured exports in the context of a preferential trade access arrangement which favours such an industrialisation path. This is done through an analysis of SSA's clothing and textile exports under the African Growth and Opportunities Act (AGOA) which provides preferential access to SSA exporters into the US market. Since, excluding South Africa, more than half of all SSA's manufactured exports are made up of clothing alone, what happens in this sector may be a portent for SSA's export oriented industrialisation in the future. The authors produce evidence to suggest that SSA clothing and textile exporters who are able to draw on trade preferences are still largely able to rival their best competitors in the world. They also do so with the evidence of significant productivity improvement, in that during 2005 export values and volumes held up much better than employment in Kenya, Lesotho and Swaziland. The footwear industry in Ethiopia similarly highlights that history is not destiny – economic agents (firms in this particular instance) can find ways to invest, upgrade and escape from a deterministic fate made of demise and disappearance in the face of Chinese competition.

The papers make a modest contribution to the study of the impact of China and India on developing countries, an area of research that is still in its infancy. In the future, researchers may wish to consider more sophisticated methodologies, depending on the availability of data no less than on the ability to generate them when they are not available. Moreover, impacts should be analyzed separately for China and India, because both the nature of these two giants and the nature of the countries interacting with them are sufficiently different that varied impacts are almost inevitable.

An additional innovation may result from the adoption of (domestic and international) institutional approaches and value chain analysis. An explicit treatment of the domestic and global institutional environment that mediates trade, FDI, aid, and migration would enrich any analysis. The elimination of the MFA is just one example of how a change in institutions can have an impact on trade, manufacturing, and ultimately on growth and distribution in a given country. Value chain analysis is also extremely useful in identifying not only the major actors and their roles in particular chains, but also the locus of power in particular chains. Such analysis is especially useful in providing pointers to appropriate industrial policy.

Finally, three practical conclusions flow from this analysis. First, the size of China and India means that the countries can swamp Africa on many fronts. If African countries are to grow and develop, they must adopt strategies that maximize the complementary impacts of these two giants and minimize their areas of direct competition. At the same time, the cases of the clothing and footwear sectors (but also of furniture) make clear that African economies are unable to compete internationally on a level playing field: they require some form of policy intervention that tilt global trade in their favour.

Second, carefully designing industrialization strategies are in need that are most complementary to the Asian Drivers' development path. Clothing and footwear – especially in their export variants – are examples of industries with known technology, but rapidly changing markets. Industrial policy must provide the right balance of challenge and support to exporting firms to enable them to take full advantage of the opportunities available. This type of support for “self-discovery” activities should complement standard prescriptions to improve business environment and reduce factors costs (in particular energy, transport, goods handling).

Third, sectors of mutual interests should be identified in order to develop long-term views on how to cooperate with China and India and these views should be mainstreamed into national development plans. In Senegal, for instance, cooperation with India in the field of aquaculture and teleservices is seen as crucial to solve problems (overfishing) and develop comparative advantages (the country is equipped with a digital link connecting it with Europe and the United States). By way of contrast, in the same country the lack of a common vision regarding ICS – the phosphate mining and processing company in which Indian interests own a combined 30% stake – has damaged the role and place of this flagship national industry in the local economy.