China's African Hinterland

C.P. Chandrasekhar and Jayati Ghosh

Of the news that has been good about the global economy in recent years, the reports least emphasized are those pointing to a revival of growth in Sub-Saharan Africa. After having registered growth in constant price dollar GDP of less than 2.5 per cent an annum during the decade of the 1990s, the region has seen growth touching 4.2 per cent in 2003, 5.2 in 2004, and an average of 5.4 per cent during 2005-06. This story is significant because it signals the return to a phase of global growth, where Sub-Saharan Africa is not bypassed when growth revives in the rest of the world.

Not surprisingly efforts are on to understand why a large region that has been a loser in the global growth sweepstakes, has now joined the global hinterland that is pulled along by growth in the rest of the world economy. Most observers have suggested that it is because China and India, especially the former, have emerged as the fastest growing countries and as major global investors that Africa has benefited from global growth. The argument seems to be that when the global distribution of income shifts in favour of fast growing developing (as opposed to developed) countries, other developing countries gain more.

Among the reasons for this is the fact that much of Sub-Saharan Africa is still structurally constituted in ways that make it dependent on the exports of primary commodities of various kinds as the stimulus for growth. When the volume of primary product trade increases and the relative prices of primary products improve, Africa benefits and grows. And, when persisting high growth in China and India make them important sources of global demand for primary products, both volumes and prices improve. Volumes because the size of these countries and the phase of development in which they are, makes their growth primary-product intensive. Price because the enhanced demand from new sources not only changes the supply-demand balance in primary products, but also allows exporters to seek out alternatives to trade channels which are controlled by monopsonistic buyers from the developed industrial countries who are able to keep primary product prices down.

It needs noting here that China and India cannot be placed in the same league in this regard. There are, of course, similarities between the two countries. Both have been characterized by high and sustained rates of growth of aggregate and per capita national income, with signs of acceleration in India recently. This occurs in the context of integration through trade, investment and financial liberalization. The net result has been their increased presence in the global economy. These two economies are estimated to contribute about a third of the growth in the global economy.Their presence is also seen in their shares in global exports, imports and GDP (Table 1).

India and China Relative to the World (Percentage Shares)					
	1978	**1985**	**1995**	**2000**	**2005**
Exports of goods and services (Constant 2000 US$)					
China	1.4	1.9	2.6	3.5	7.6
India	0.4	0.4	0.7	0.8	1.2
Imports of goods and services (constant 2000 US$)					
China	0.86	1.94	2.60	3.14	5.53
India	0.38	0.49	0.81	0.81	1.00
GDP (Constant 2000 US$)					
China	0.9	1.5	2.9	3.8	5.2
India	0.9	1	1.3	1.4	1.8
GDP, PPP (Constant 2000 international $)					
China	2.9	4.5	8.8	11	14.3
India	3.6	3.8	4.9	5.4	6.1

However, there is one major difference. While merchandise trade dominates China's exports to the world economy, in India's case its recent export dynamism is dominated by its exports of services, especially software and IT-enabled services, which in terms of value equals half that of its merchandise trade. This difference on the export front is also reflected in differences in the structure of growth in the two countries. Of the cumulative increase in GDP between 1991 and 2005, while 53 per cent was accounted for by industry in the case of China (with 40 per cent from services), as much as 62 per cent was accounted for by services in the Indian case (with 27 per cent from industry).

These differences in the pattern of growth have their implications. With growth in China being led by manufacturing the fall-out in terms of the derived demand for non-manufacturing, commodity producing sectors like agriculture and mining is likely to be significant, if not strong. This would effect the structure of China's import demand as well. This feature would be less true of India's services-led growth, which is likely to impact only on the demand for manufactures and other services

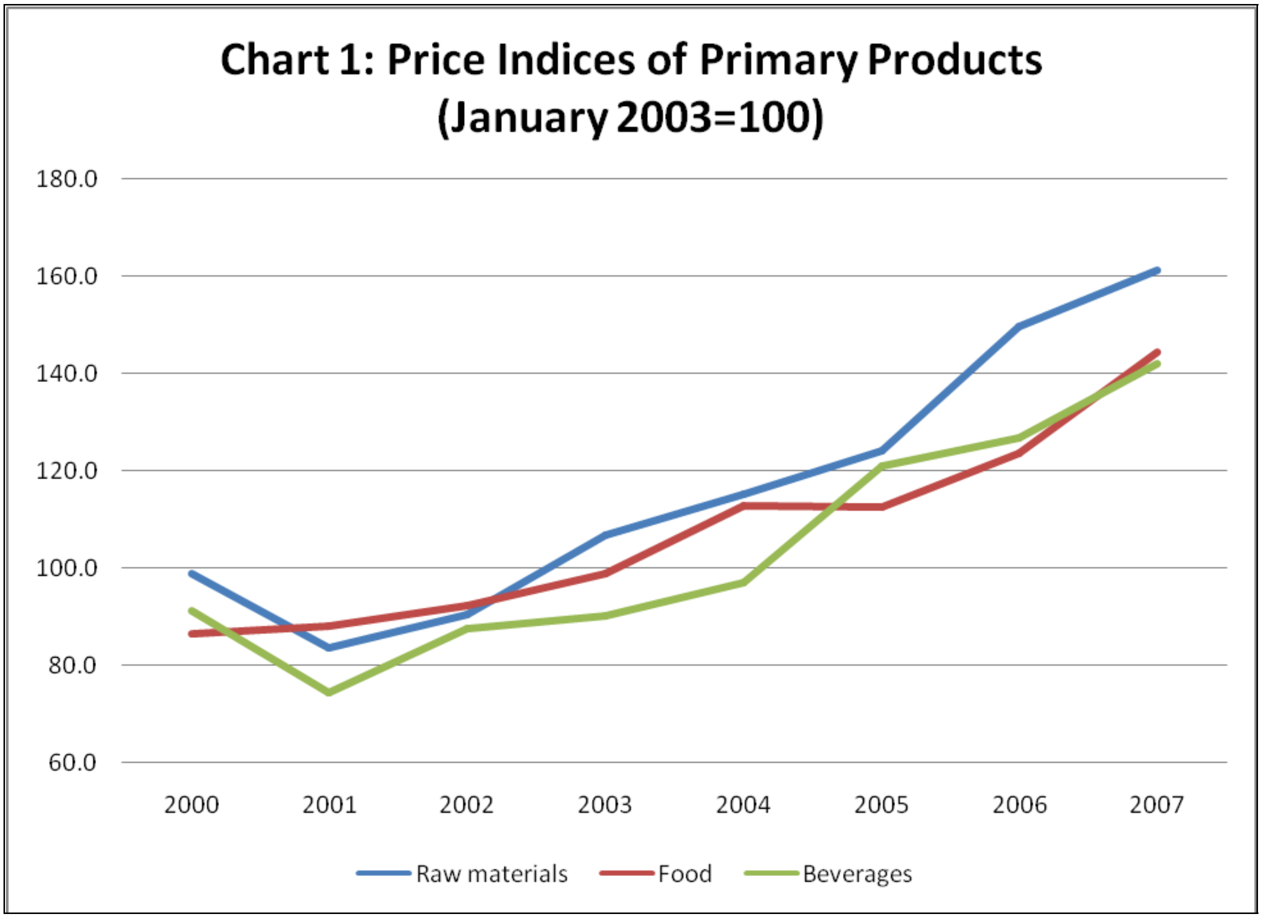
This seems to be affecting the sources of imports of the two countries as well. In China's case there is evidence of a sharp shift away from imports from developed to developing countries starting in the mid-1980s. In the second half of the 1980s, the sharp shift in the sources of Chinese imports was in favour of developing Asia. Subsequently, the increases have been distributed to other part of the developing world (Table 2).

Table 2: China's Developing Country Imports (as % of world imports)

	1980	**1985**	**1990**	**1995**	**2000**	**2005**	**2006**
DEVELOPING COUNTRIES	22.8	28.1	48.3	42.7	49.8	53.5	53.2
OIL EXPORTING CTYS	1.4	1.4	2.5	2.9	6.0	5.8	6.5
NON-OIL DEVELOP.CTYS	21.4	26.6	45.8	39.8	43.7	47.6	46.7
WESTERN HEMISPHERE	3.7	4.3	2.4	2.1	2.4	4.0	4.2
MIDDLE EAST	1.8	0.5	0.9	1.7	4.5	4.9	5.4
DEV. CTYS: ASIA	8.7	16.7	38.3	33.7	36.7	38.0	36.8
AFRICA	1.5	0.7	0.6	1.0	2.4	3.0	3.4
DEV. CTYS: EUROPE	7.2	5.9	6.1	4.2	3.8	3.6	3.4

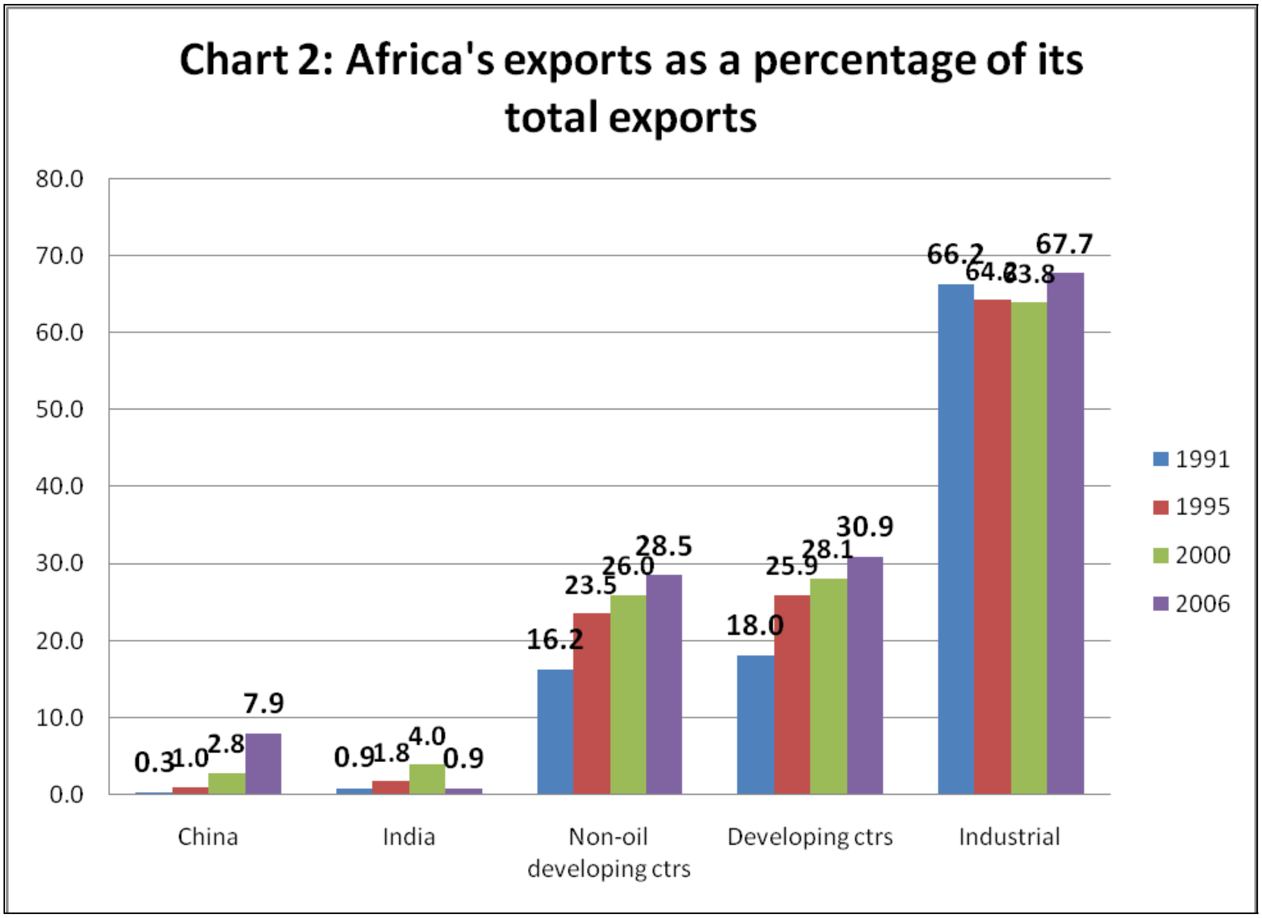
The decline in imports from developed countries is true in the case of India too, though this is accompanied by a decline in imports from developing counties and an increase in unspecified categories. In India's case, prior to liberalization, oil played an extremely important role in shaping the sources of imports. With liberalization, Asia's role as a source of imports has been increasing rapidly, servicing India's manufactured import requirements. Areas other than Asia, especially Africa, seem to be dropping out, but there is a data problem here, since imports from a category of unspecified countries is rising fast. Since the data is from the IMF and is on a balance of payments basis, this could partly reflect defence imports. It could also be an increase in imports from Taiwan, China.

Because of its effects on the demand for primary commodities, one major impact of the China boom has been a degree of buoyancy in commodity prices. While other factors have played a role, but for China's presence, commodity prices may not have reflected the buoyancy they have. Over the last five years there are signs of a reversal (however temporary) of the long term trend in global commodity prices. By the beginning of this decade commodity prices had fallen relative to consumer prices (as measured by the US Consumer Price Index) for over five decades. But from around 2002, commodity prices have been on the rise.



While exporters of oil have been important beneficiaries, the index of non-fuel commodity prices has also been rising. Non-fuel commodities have a higher share in world trade (about 14 percent during 2000–04) than fuel commodities (7 percent). Further, many developing countries are highly dependent on non-fuel commodities as a source of export earnings—36 countries have a ratio of non-fuel commodity exports to GDP of over 10 percent, and in 92 countries the ratio is over 5 percent. Indeed, in many low-income countries (including in Africa), a large share of export receipts is generated by just a few commodities.

In fact, a major beneficiary of these trends in commodity demand and prices is Africa, in which China's presence has expanded substantially. African exports to China started accelerating around 2000, and have since risen at an annual growth rate of more than 50 per cent. By 2004, African exports to China touched $11.4 billion, reflecting a more-than-threefold increase since 2000. By 2006 China accounted for 8 per cent of total African exports to the world (Chart 2).



One consequence of the rise in the volume and unit value of commodity exports from Africa, are signs of the reversal (for the present) of the long-term deterioration of net barter terms of trade faced by developing countries dependent on primary products for their export revenues that go to finance imports of manufactured products. With competition in manufactures export trade (influenced by China) moderating price increases in manufactured goods, and China's demand driving up commodity prices, developing countries as a group and Africa in particular that are still substantially dependent on the exports of primary products, have experienced an improvement in their terms of trade.

Overall, the China boom has helped a continent like Africa. Real GDP growth in Africa rose from an average annual rate of 4.2 per cent during 2001-2004 from 3.3 per cent during 1997-2000. Sub-Saharan Africa gained even more with its real GDP growth rate touching 5.4 per cent in 2004, which was an eight-year high. The African Economic Outlook 2005 (AfDB/OECD 2005), among others, attributes this improvement substantially to the rise in commodity prices.

Crtics have, however, argued that, desperate for raw materials, China has been pumping Investment into the extractive sectors, replicating the exploitative relations that characterized colonial trade. It is indeed true that FDI in Africa rose from just $6 billion in 1995 to close to $18 billion in 2001 and $36 billion in 2006. This implied a rise from around 6 per cent of gross fixed capital formation in the mid-1990s to more than 20 per cent in 2001. Although, the ratio has been below this level since it was close to 20 per cent again in 2006. However, a large share of this increased investment came from the developed countries, with China still accounting for a small proportion of global investment. Outward FDI from China in 2006 was just $16.13 billion, with significant flows to developed countries. As opposed to that global FDI outflows totaled $1.2 trillion.

What has drawn attention more recently aresigns of a sharp increase in mergers and acquisitions in the primary sector, particularly oil and gas, in Africa. For example, according to UNCTAD, total M&A sales of assets in Africa rose from $10.5 billion to $17.6 billion between 2005 and 2006. An important component of that increase was an increase in petroleum investments from $34 million to $4.3 billion, reflecting a few major acquisitions. In the recent past China has played an important role in oil investments in countries like Sudan. For example, one large project is China National Petroleum Corporation's (CNPC's) stake in the Greater Nile Petroleum Operating Company (GNPOC) in Sudan. CNPC acquired a 40% stake in the GNPOC consortium in March 1997. At present CNP'c overall investment in GNPOC is estimated at more than $4 billion. But trades like these should not be overstated. According to a study by the consulting firm Eurasia Group, the amount of equity-investment related oil flowing into China in 2006 was only about 320,000 barrels per day (bpd), out of total imports of 3.6 million bpd and total Chinese consumption of 7.4 million bpd.

China's interest in the region's natural resources has resulted in huge flows of aid and foreign investment from China to Africa, bolstering the regions infrastructure and putting much needed investment into the natural resources sector. But this is still too small to make it a new imperial power. But, is this a challenge to the old Imperialism? It is inasmuch as it gives other developing countries a space to negotiate the process of development. Africa still remains the hinterland, but with new partners other than the erstwhile colonial powers and on terms that are improving. This may explain the tendency to exaggerate China's role as investor in Africa.