FOREIGN TRADE AND DEVELOPMENT:

PRESENTATION; WEEK 9 7TH DECEMBER.

Its evident from the empirical data that china has a substantial affect on Africa especially sub Saharan Africa, through the export of cheap manufactured goods to the import of natural resources. However I world like to focus on the crucial ‘nature’ of this trade and to open the discussion beyond just comparing numbers. I am going to be focusing on 3 aspects that define the relationship between china and SSA, which are also interconnected.

1. Trade flows both ‘direct and indirect’
2. Foreign direct investment
3. Aid flows

One of the most important economic developments in recent years has been the rapid emergence of China as a world economic power. It has experienced 8% growth for the last decade, its export performance has become formidable, and China has also doubled the global workforce by adding 100 million extra workers. The hunger to supply a growing industrial sector, and find destinations for its cheap goods. China has recently developed economic ties with central Asia, Latin America, and sub Saharan Africa.

Another important issue that Ali highlights is the ‘resource curse’, argument. Historical experience shows that rich endowments of natural resources may weaken government’s incentives to diversify its production system and promote wasteful expenditure. With this in mind Chinas impact needs to be analysed systematically.

The difference between direct and indirect trade flows; direct trade, which is ‘intuitive’ and easier to measure. The indirect impacts occur when china’s relations with other countries impact on ssa itself. It is the indirect impact of china that Ali states to be the most important factor.

Direct Trade flows:

The actual trade in relative terms is not so much; nevertheless it’s the rapid growth that is quite impressive, which suggests an important impact on both sides. Trade between 2001 and 2006 Africa’s exports to china increased at an annual rate of 40% from 4 billion to over 30 billion in 2006, this is also similar to Africas imports from china reaching 27 billion.

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We can see the gradual increasing nature of trade between the two especially after 2001. SSA exports have been primary centered on its high endowment factor its ‘natural commodities’; these are oil, iron, cotton, and diamonds.

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In 2004, real GDP in Sub Saharan Africa accelerated to 5.1% the highest in almost a decade, underpinned by the strong oil and metal prices. Metal prices jumping 15%. To assess Chinas impact on terms of trade in SSA a quantitative analyses was conducted for 2000-2005 using commodity price data from the World Bank and IMF. The winners from trade are the countries that export oil, wood and metals. From 200 to 2005 international oil prices have increased 89% China accounted for 18% of the growth in world demand. This is also similar to the metal market prices have increased across the board.

Indirect trade flows.

Using aggregate data it seems that Africa is gaining, however not all are gainers there are big losers too. Oil importing countries that are also textile exporters like Madagascar and Mauritius suffer from negative terms of trade, with high oil imports and competition from Chinese textile imports resulting in job loss and shrinkage in domestic manufacturing. This is evident in Zambia also were the trade unions have been protesting against the Chinese imports of footwear and clothing, and in Nigeria were there has been a 350,000 job loss that is linked also to china.

One sector that is focused particularly by kaplinsky is the textile and clothing sector. ‘The United States African growth and opportunity act’, the ‘AGOA’ which favored exports from African countries by imposing a tariff on imports to the USA of such goods by other nations. It was exclusively to the preference of African nations. This was the case until 2005 were the textile sector had to abide by WTO rules ending all quotas. All but a select few of African nations experienced a 20, 30% decrease south Africa’s trade dropped by 50%, this invariably had a negative affect on employment within these sectors,

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The impact of China on a country’s terms of trade is dependent on five variables. These are,

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Foreign direct investment.

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Chinese FDI in Africa has reached unprecedented levels to over 1 billion in 2006. The important differentiating point in Chinese FDI from US or Europe is that it comes from government owned institutions; with low cost capital it means they have a longer time frame. Many of the investments are seen to be explicitly or implicitly linked to accessing strategic resources, which is outwardly promoted by the government announcing in the 1990’s of ‘GOING GLOBAL STRATEGY’. The major beneficiaries of trade with China have been Angola and Sudan. These are also big oil exporters, in return China is providing financial incentives. Two billion in credit. In Angola China is constructing office buildings, housing developments, sections of the railway neglected by the civil war, hospitals, and schools. However projects financed by China are obliged to contract only 30% of work to domestic firms. The employment impact is minimal due to large influx of Chinese workers. It can be argued that the new relationship is based on resource extraction rather than human capital development.

AID.

In October 2000 there was a China Africa cooperation forum, there China formerly expressed willingness to reduce Africa’s foreign debt problem and to invest in human resources. The aid to sub Saharan Africa can be grouped into six categories.

1. Financial assistance for example building the railway link between Tanzania and Zambia in the 1970’s.
2. Cancelling foreign debt 1.2 billion by 31 countries in 2004.
3. The growing training program and providing scholarships.
4. Providing technical assistance, teachers, doctors.
5. Instituting a tariff exception for 29 African countries.
6. China has recently provided peace keeping forces to SSA.

Conclusion:

China’s growing role in Africa is not temporary. As China-Africa economic relations are increasingly based on direct trade and investment and not only in commodities, the relationship is likely to expand, along with economic growth in China and

Africa. Economic relations are increasingly dominated by commercial ties rather than by aid considerations. It is corporate business that is shaping the economic exchange not government.

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