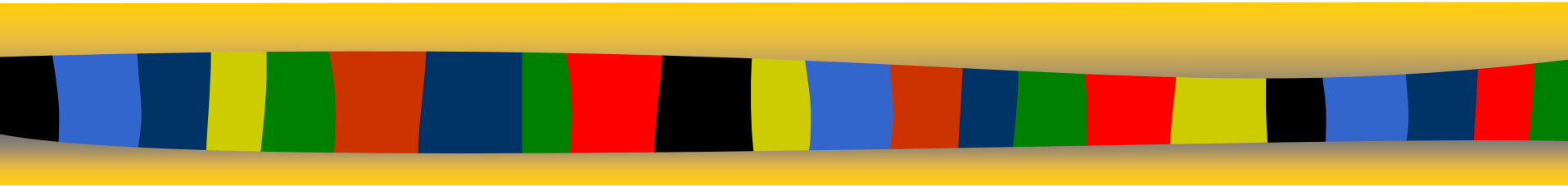


# **AFRICA'S SILK ROAD**

## ***China and India's New Economic Frontier***



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# Background

- Increasingly notable hallmark of the recent trend in South-South economic relations is the rapid increase in trade and investment flows between Sub-Saharan Africa and Asia, especially with China and India.
- Chinese trade and FDI in Africa actually dates back decades, with most of the early investments made in infrastructure sectors, such as railways. India, too, has a long history of FDI in Africa, particularly in East Africa, where there are significant expatriate Indian communities.
- China and India have rapidly modernizing industries and burgeoning middle classes with rising incomes and purchasing power
  - ....resulting in growing demand not only for natural resources but also non-traditional resources such as processed commodities, light manufactured products, consumer goods, and tourism
  - ... where Africa has the potential to export.



# Main Questions Addressed by the Study

- *What* has been the recent evolution of the pattern and performance of trade and investment flows between Africa and Asia, especially China and India.
- *Which* factors are likely to significantly condition these flows in the future.
- *What* have been the most important impacts on Africa of its trade and investment relations with China and India.
- *What* actions can be taken to help shape these impacts to enhance Africa's economic development prospects.



# Focusing on Four Key Factors

- “At-the-border” trade and investment policies:  
Policies affecting market access (tariffs and NTBs); FDI policy regimes; and bilateral, regional and multilateral trade agreements.
- “Behind-the-border” (domestic) market conditions:  
Business environment; competitiveness of market structure; quality of market institutions; and supply constraints such as poor infrastructure and skill shortages
- “Between-the-border” trade facilitation factors  
Cross-border trade facilitating logistical and transport regimes; quantity and quality of overseas market information; impacts of tech. standards; and role of migration.
- Complementarities between investment and trade  
Extent to which investment and trade flows leverage one another; effects of trade-investment complementarities on scale of production and integration across markets; participation in global production networks and value chains; and spillover effects of transfer of technology.



# Summary of Key Messages

- China and India's new-found interest in trade and investment with Africa presents a significant opportunity for growth and integration of Sub-Saharan Africa into the global economy.
- China and India's South-South commerce with Africa is about far more than natural resources, opening the way for Africa to become a processor of commodities and a competitive suppliers of goods and services to these countries.
- A growing number of Chinese and Indian businesses active in Africa are on a global scale with world class-technologies, fostering the integration of African businesses to more advanced markets.
- A major unevenness between the two continents remain. It is imperative that both sides address asymmetries and obstacles to its continued expansion through reforms, which entail reforms at the border, behind the border, and between the border, as well as reforms that leverage linkages between investment and trade.



# Data & Methodology

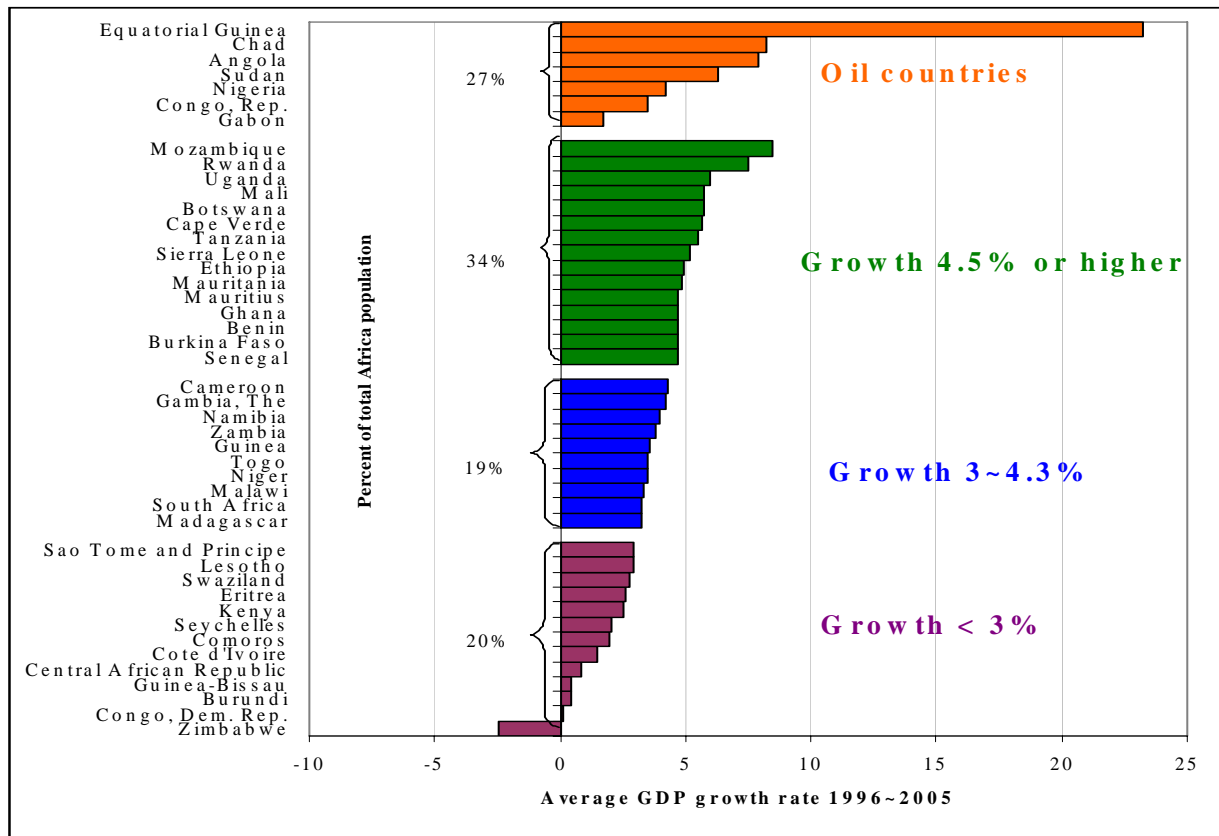
- Analysis of newly collected firm-level survey data on 400+ African firms with Chinese and/or Indian affiliation in four focus countries—Ghana, Senegal, South Africa, and Tanzania (May 2006)
- Analysis of originally developed 16 individual business case studies carried out in the field in the four focus countries, focusing on four sectors—construction, food, textiles and apparel, and general manufacturing (May 2006)
- Gravity model analysis of African bilateral trade flows worldwide to assess barriers to trade with China and India
- Analysis of existing firm-level micro data from World Bank Investment Climate Assessments (ICAs) and data from World Bank Doing Business in African and Asian countries, special emphasis given to China and India
- Analysis of trade data from UN COMTRADE, UNCTAD TRAINS, and IMF Trade of Direction
- Country-specific qualitative data from existing resources, incl. DTISs



# Findings

# Africa's development pattern increasingly diverse, with more and more success stories

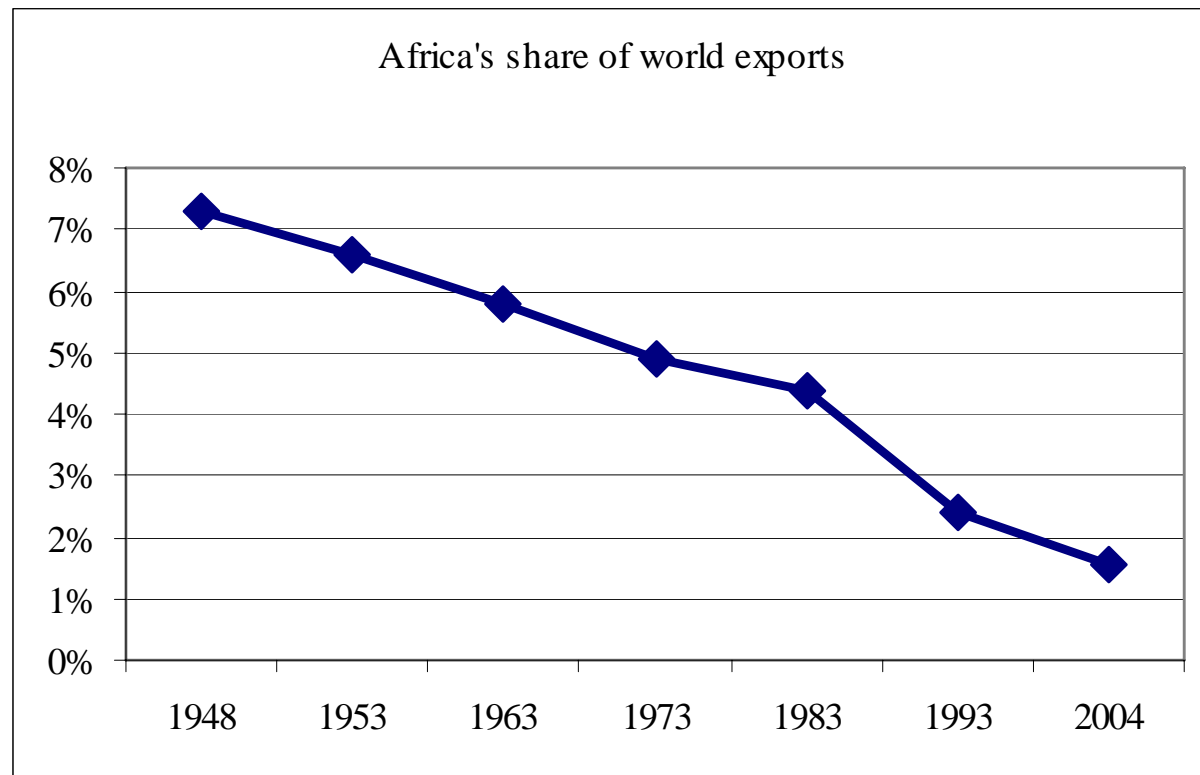
1/3 population in non-oil countries with growth at least 4.5%  
 1/5 population in non-oil countries with growth under 3.0%



Source: World Bank WDI.

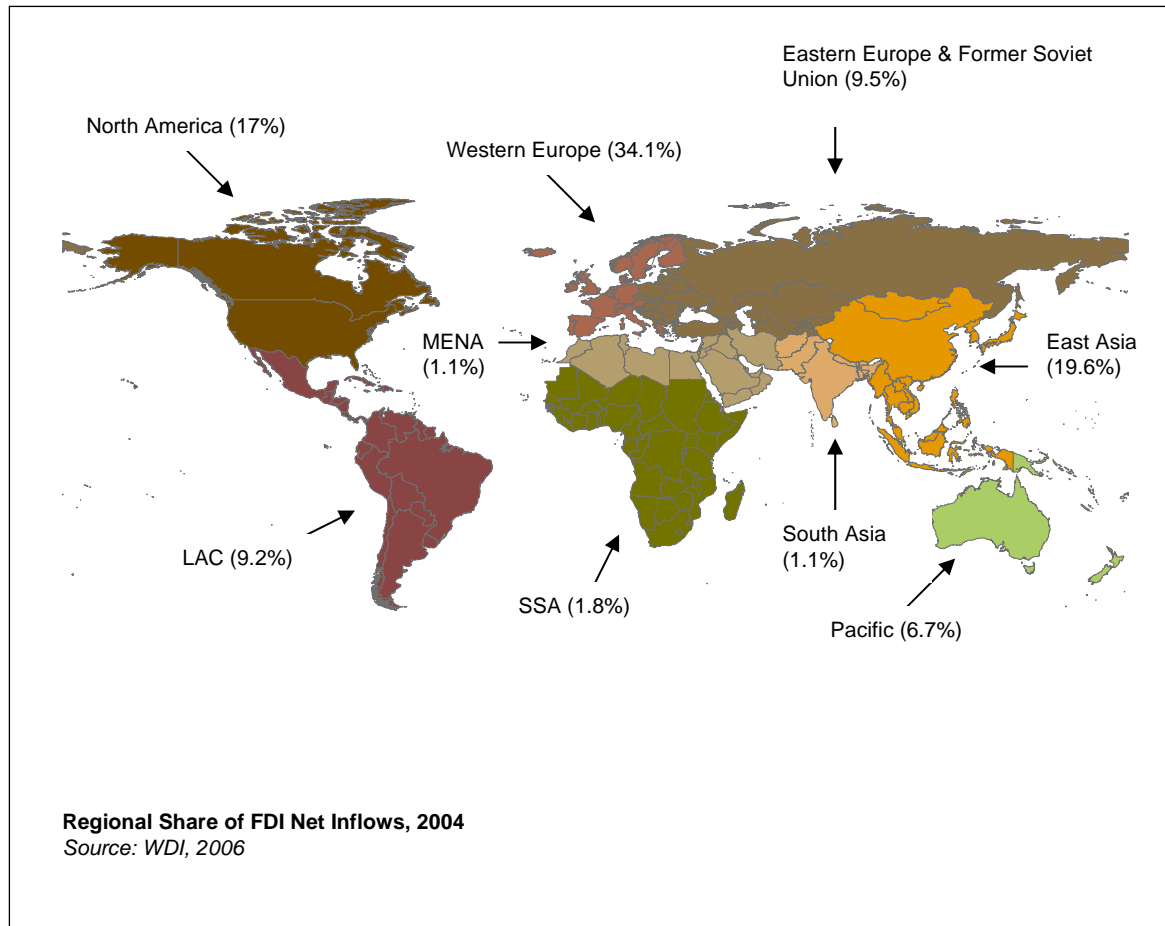


## But Africa's share of world exports has been declining

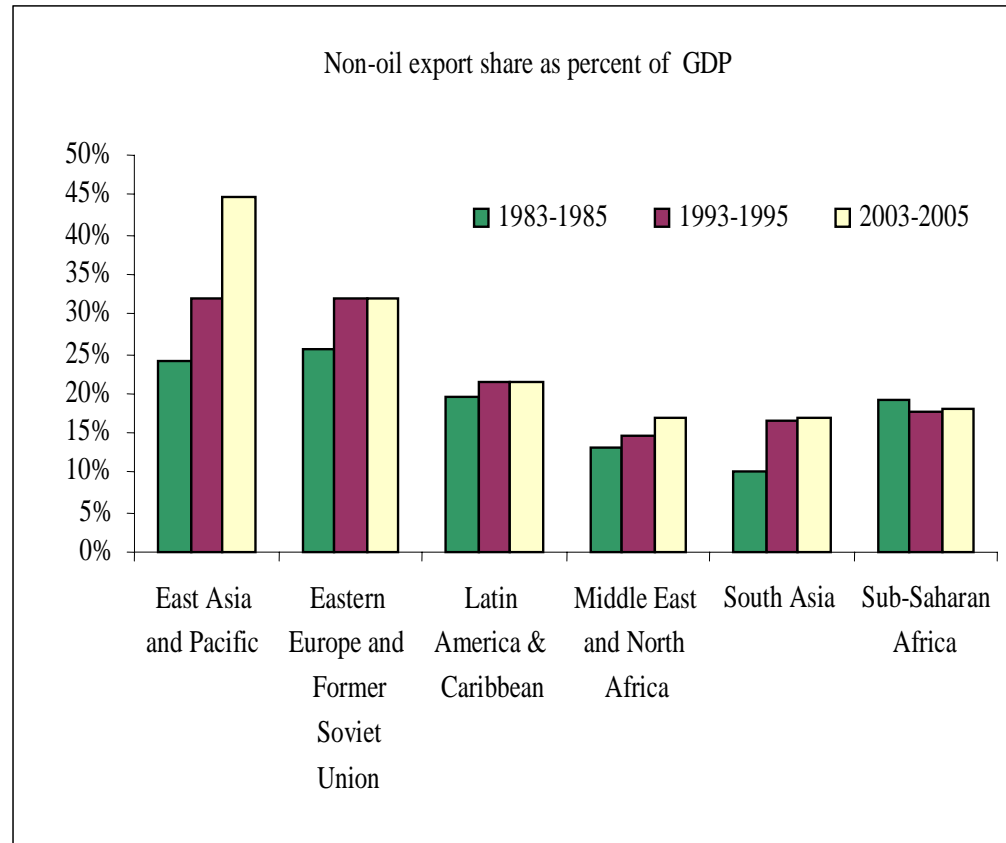


Source: IMF Trade of Direction, 2005 year book.

## Africa accounts for 1.8 percent of global FDI flows

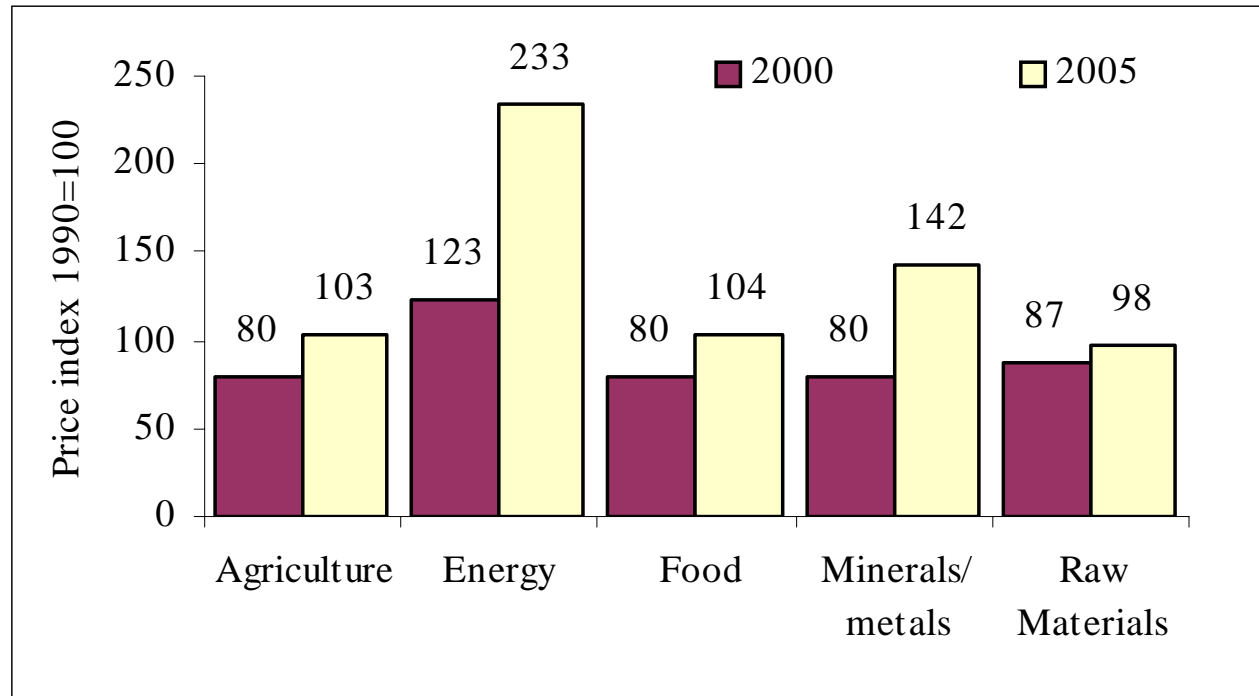


## Globally, Africa Has Not Increased Its Share of Non-Oil Exports



Source: IMF DOT.

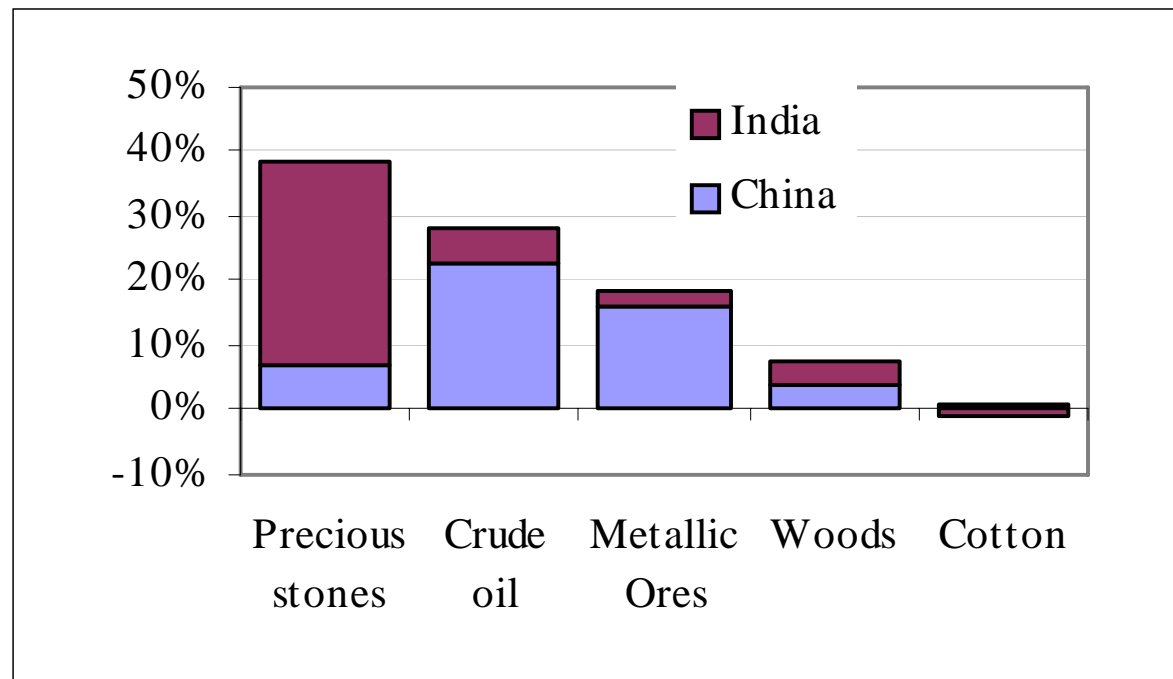
## Prices Have Risen for Major Africa's Export commodities



Source: World Bank DEPG price indices for Africa exports.

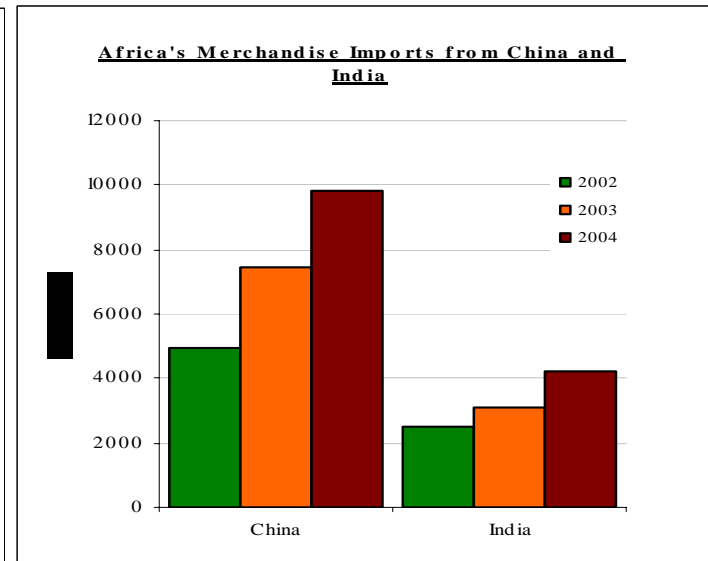
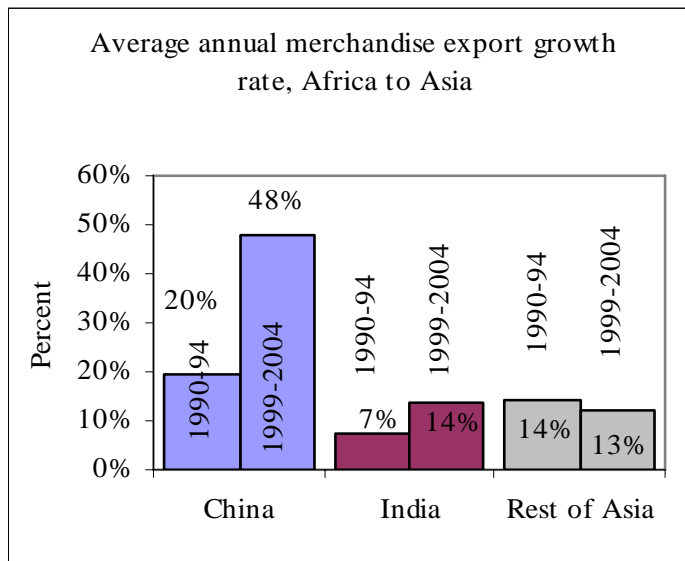
## China and India's Contribution to Global Commodity Demand

Percent contribution of China and India to the growth of world imports of selected commodities, 2000-2004



Source: Goldstein, Pinaud, Reisen, and Chen. 2006. *The Rise of China and India, What's in It for Africa?* OECD.

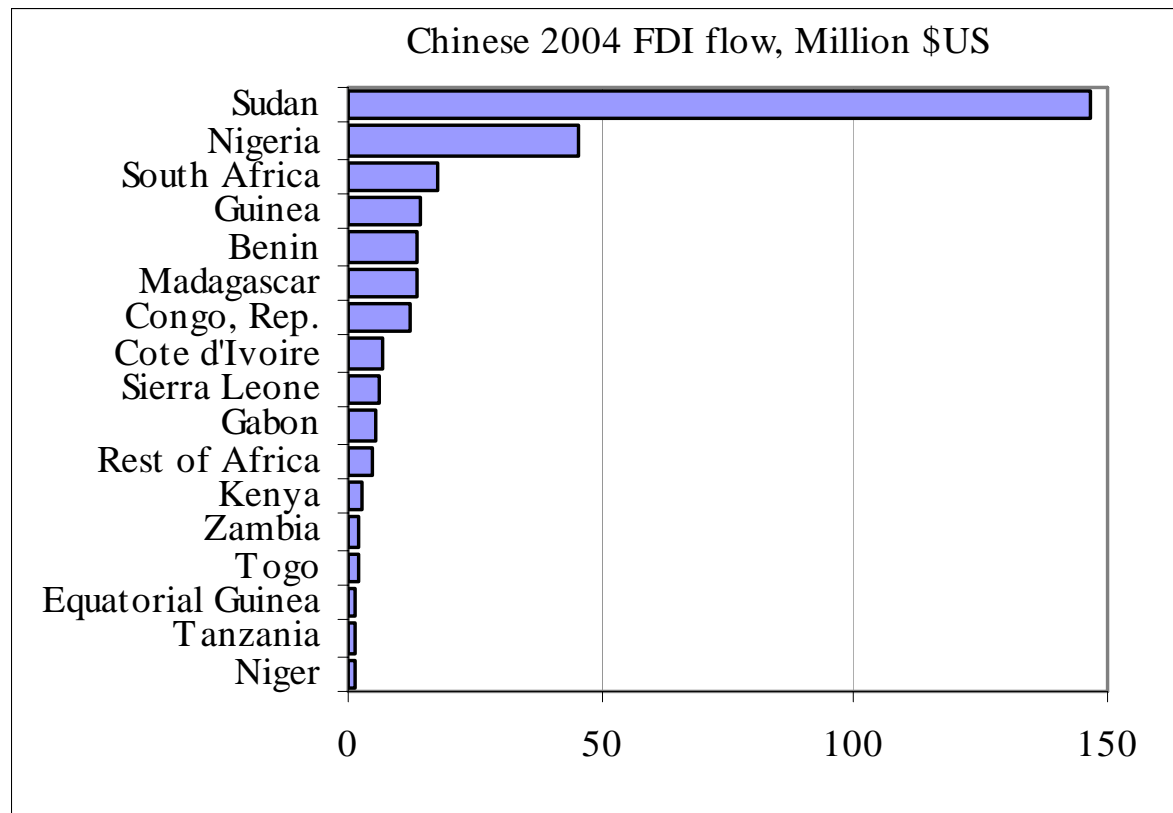
## The Dramatic Rise of China and India as Destinations for African Exports



Data sources: COMTRADE, using Asia countries' reported data on imports from Africa. Africa's petroleum exports to India was adjusted for missing values.

## Current China's FDI Outflows to Africa, By Country

*Current Chinese FDI outflows to Africa are largely, but not exclusively, resource oriented*

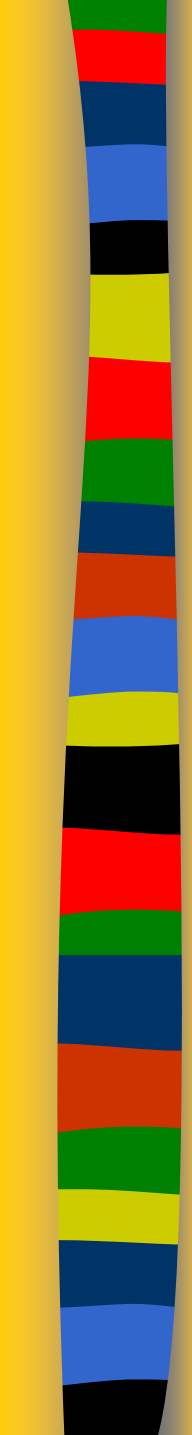




## *Country-Level Trade and Investment Patterns*

- The volume of African exports to Asia is accelerating. It grew by 15% between 1990 and 1995, it has grown by 20% during the last five years (2000-2005).
- As of 2005, Asia's share of African exports (27%) is on par with the EU (32%) and the US (29%).
- Despite this growth, Africa still remains relatively small from perspective of Asian economies. African exports to Asia account for only 1.6% of total global imports of Asian economies.
- Asian exports to Africa are equally growing rapidly. During the last five years, they have grown by 18%, higher than any other region, including the EU.



- 
- China and India --- though still only 13% of all of Africa's exports -- has been one of the most rapidly growing markets at 1.7 times the overall growth for African exports
  - As between India and China, it is China that is the most dynamic segment: Exports to China grew by 48% annually 1999-2004 compared to 14% for India, so that 10 percent of SSA exports are now to China and some 3% are to India
  - 86 percent of exports to China and India are oil, metals, and agricultural raw materials.
  - 5 oil and mineral exporting countries account for 85% of exports to China, and South Africa alone accounts for 68% of exports to India.

## Impacts on Bilateral Trade Flows of African Countries: Roles of *At-the-Border*, *Behind-the-Border*, and *Between-the-Border* Factors

		All Merchandise Trade		Manufactured Trade	
		Exports from Africa	Imports to Africa	Exports from Africa	Imports to Africa
<b>At-the-border Factors</b>	Importer Trade Restrictiveness	n.s.	n.s.	–	n.s.
	Regional Trade Agreement	+	+	+	n.s.
	Preferential Market Access	n.s.	n.s.	+	n.s.
<b>Between-the-border Factors</b>	Customs Procedure - Exporter	–	n.s.	–	n.s.
	Customs Procedure – Importer	+	n.s.	n.s.	n.s.
	Internet Access – Exporter	+	+	+	+
	Internet Access – Importer	n.s.	n.s.	n.s.	n.s.
	Port Quality – Exporter	–	+	–	+
	Port Quality – Importer	+	+	+	+
<b>Behind-the-border Factors</b>	Domestic Business Procedure – Exporter	–	n.s.	–	n.s.
	Power Infrastructure Quality – Exporter	n.s.	n.s.	+	n.s.

*Source:* Authors' calculations based on 2002–2004 average figures. See chapter 2 for details.

*Note:* Only the signs of significant coefficients are shown (level of significance above 10 percent). “n.s.” represents a coefficient not statistically significant.

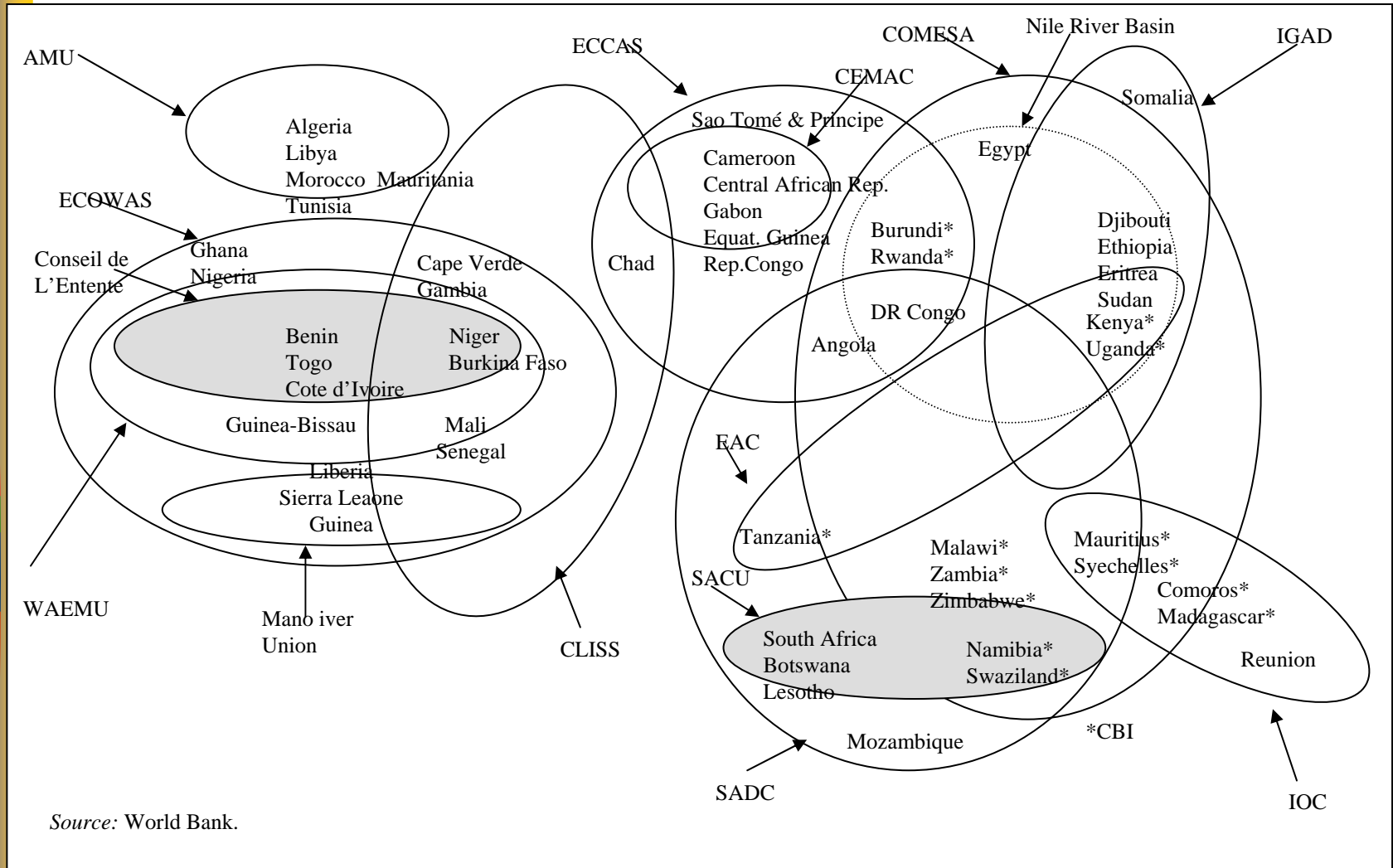
## Africa's Leading Exports face Escalating Tariffs in China and India

		Africa Imports			
		China	India	Japan	Asia Average
211	Raw hides	6.5	0.1	0	0.8
611	Leather	8.8	14.7	0.7	4.6
612	Manufactures leather	14.6	15	1.9	7.9
222	Oil seeds	5	30	0.4	2
423	Vegetable oils	10	45	-	27.7
7111	Coffee, not roasted	8	100	0	2.3
7112	Coffee, roasted	15	30	9.1	9.1
721	Cocoa beans, raw	8	30	0	2.8
722	Cocoa powder	15	-	-	0.2
333	Petrol. oils, crude	0	-	-	0.2
334	Petroleum products, refined	7.4	15	2.1	0.3
66722	Diamonds, sorted	3	-	0	2.2
66729	Diamonds, cut	8	15	0	6
6673	Other Precious/semi-precious stones	7.3	15	0	9
897	Jewelry	26.8	15	0.9	15.7
263	Cotton	27	10	0	14.8
6513	Cotton yarn	5	15	-	5
652	Cotton fabrics, woven	10	15	1	5.6
84512	Jerseys, etc. of cotton	14	-	5.7	6.8
8462	Under garments, knitted	14.1	15	6.9	5.2

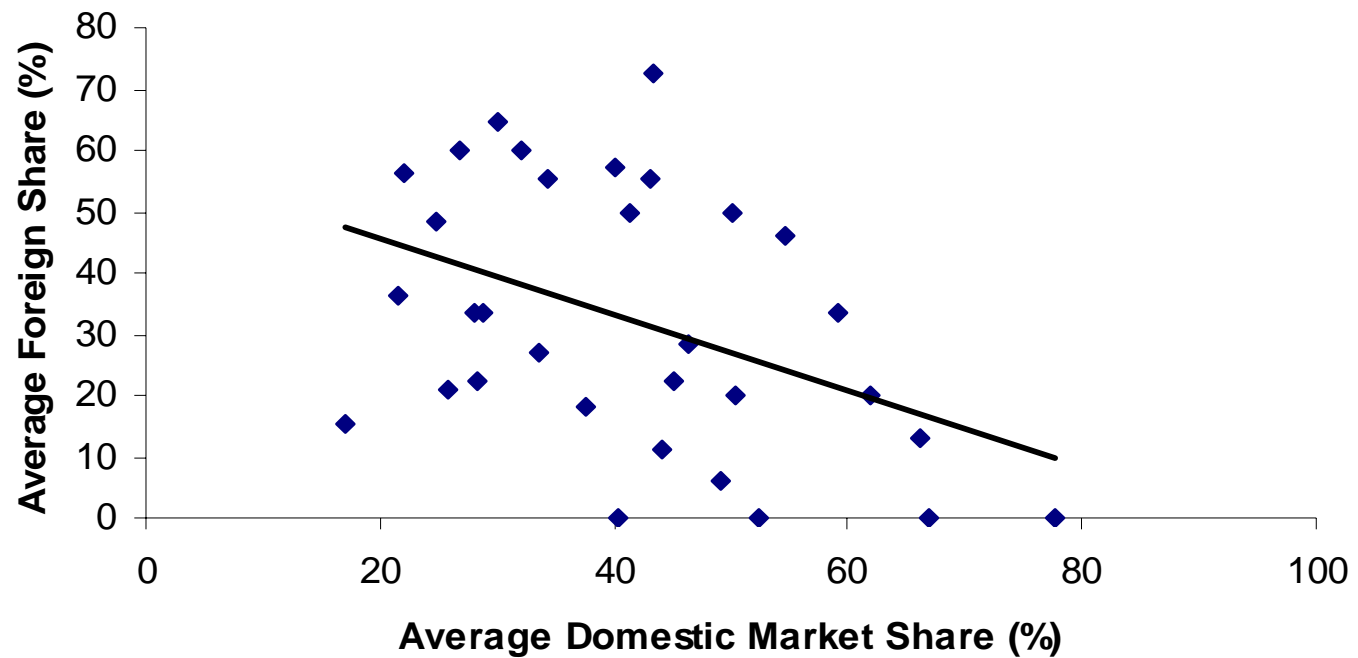
Source: UNCTAD TRAINS database.

Note: Darker shades represent higher levels of processing.

# The Spaghetti Bowl of African Regional Trade Agreements Is Not Investor Friendly

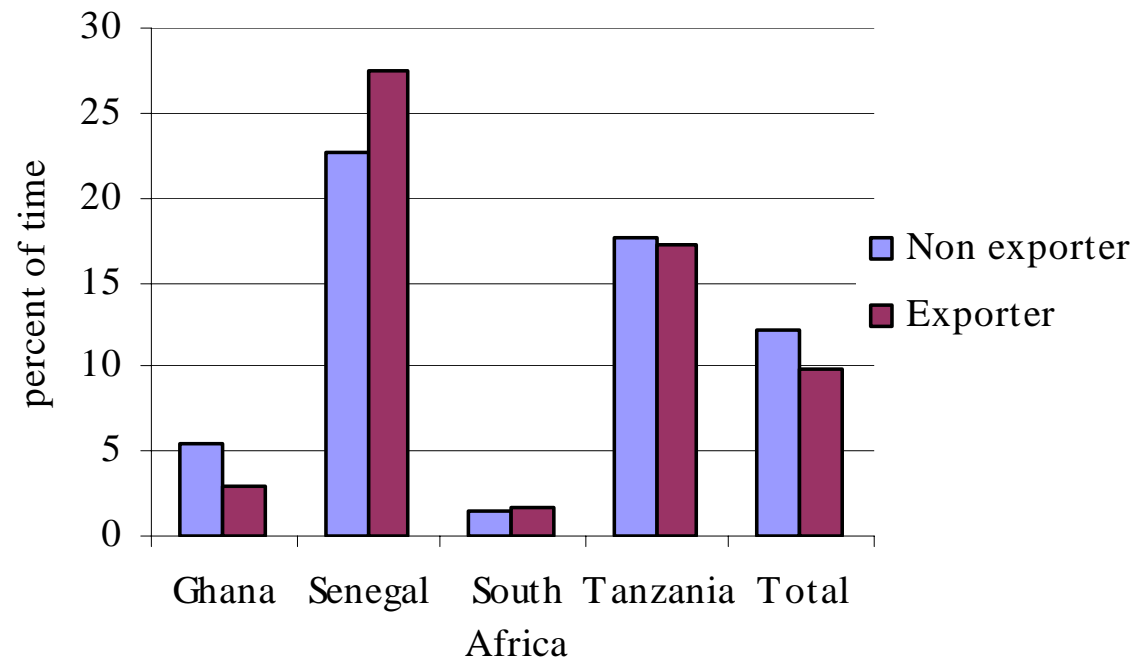


## Chinese and Indian Foreign Investors Foster Competition in African Markets



*Source:* World Bank Staff.

## Exporters in Africa Face Significant Interruption in Electricity Service from Public Grid, Lowering Their International Competitiveness



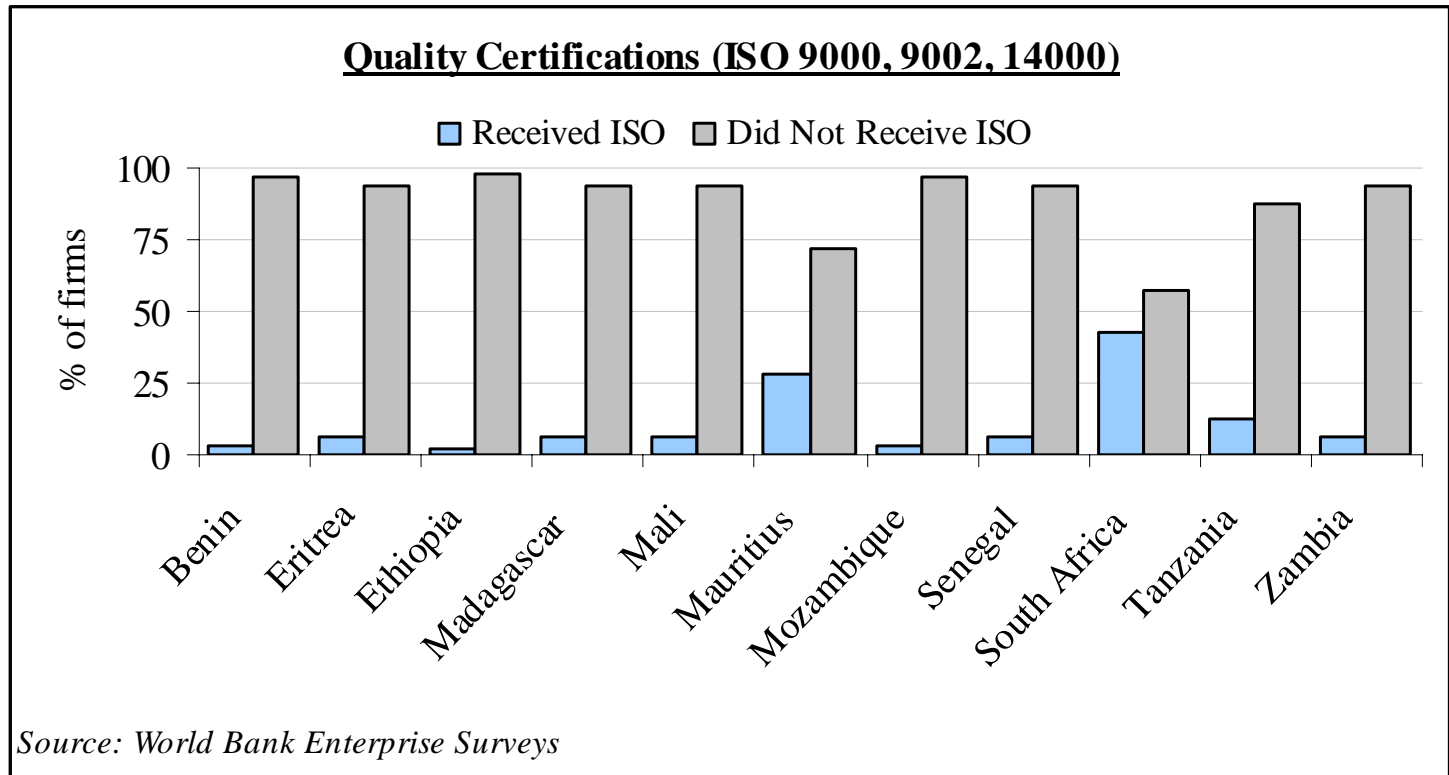
*Source:* World Bank Investment Climate Assessment for Senegal, South Africa, and Tanzania. Teal et al. (2006) for Ghana.

## Ethnicity vs. Nationality: Indian Investors are More Integrated into Africa than are Chinese Investors

		Ethnic Origin of Owner			
		African	Chinese	Indian	European
Nationality of Owner	African	100%	4%	48%	51%
	Chinese	0%	93%	0%	1%
	Indian	0%	0%	45%	0%
	European	0%	0%	4%	41%
	Other	0%	4%	3%	7%

Source: World Bank staff.

## African Exports are Constrained Because Domestic Firms Do Not Meet International Technical Standards

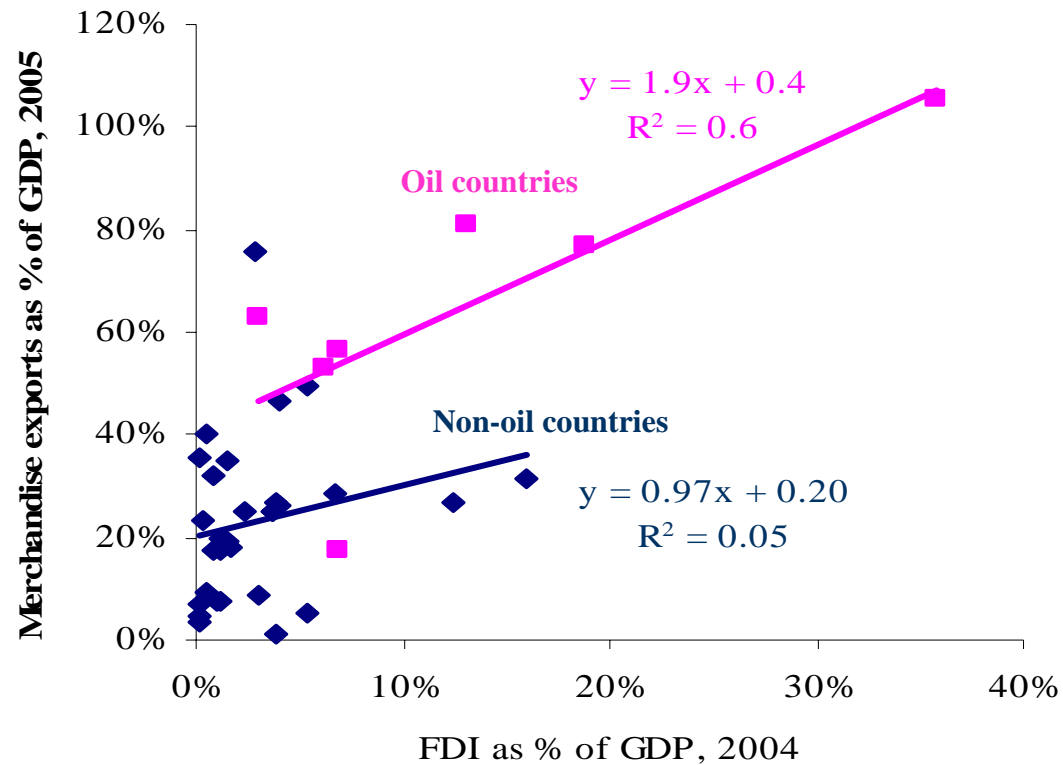


Source: World Bank.



## African FDI and Exports are Complements

The correlation coefficient between FDI as % of GDP and merchandise exports as % of GDP



Source: IMF WEO; oil countries include Angola, Chad, Republic of Congo, Equatorial Guinea, Nigeria, and Sudan.

## **Extent of Scale and Geographic Spread: Number of Separate Firms Belonging to Holding Companies/Group Enterprises**

	<b>African</b>	<b>Chinese</b>	<b>Indian</b>	<b>European</b>
Domestic	8	1	2	3
Other Africa	2	4	1	8
Outside Africa	2	16	5	58

*Source:* World Bank staff. Data pertain to median values.

## **Distribution of Output Sales by Destination Market and Nationality**

	<b>African</b>	<b>Chinese</b>	<b>Indian</b>	<b>European</b>
Domestic	85%	81%	89%	76%
Other Africa	10%	20%	18%	17%
Europe	5%	0%	0%	13%
North America	2%	0%	0%	2%
India	0%	0%	0%	1%
Other South Asia	1%	1%	0%	1%
China	0%	3%	0%	1%
Other East Asia	0%	0%	0%	3%
Other	1%	1%	1%	3%

## **Purchases of New Machinery by Import Origin and Firm Nationality**

<b>Nationality</b>	<b>African</b>	<b>Chinese</b>	<b>Indian</b>	<b>European</b>
Domestic	55%	32%	15%	28%
Other Africa	3%	1%	7%	12%
China	6%	60%	13%	1%
India	5%	0%	22%	2%
Other	31%	8%	44%	56%

*Source:* World Bank staff. <sup>a</sup> Data pertain to 2005 median values.

## **Distribution of Material Input Purchases by Origin Market and Nationality**

	<b>African</b>	<b>Chinese</b>	<b>Indian</b>	<b>European</b>
Domestic	60%	31%	27%	40%
Other Africa	7%	4%	9%	9%
Europe	13%	1%	13%	34%
North America	3%	5%	1%	6%
India	5%	2%	26%	3%
Other South Asia	3%	1%	4%	1%
China	4%	55%	7%	3%
Other East Asia	2%	1%	3%	3%
Other	2%	0%	11%	1%

*Source:* World Bank staff. a Data pertain to 2005 median annual purchases.

## Extent of Vertical Integration by Nationality

	<b>African</b>	<b>Chinese</b>	<b>Indian</b>	<b>European</b>
Output Sales to Parent Firm or Affiliate	9%	19%	0%	14%
Input Purchases from Parent Firm or Affiliate	3%	23%	9%	15%

*Source:* World Bank staff. Data pertain to 2005 median values.

## Extent of Value-added in Output Sales and Exports, by Destination Market and Firm Nationality

Firm Nationality		African	Chinese	Indian	European
	Product				
Domestic Sales	Finished Assembled	88%	90%	90%	89%
	Partially Finished	5%	9%	4%	4%
	Raw Material	6%	0%	5%	6%
Sales to Other African Countries	Finished Assembled	83%	89%	100%	78%
	Partially Finished	8%	11%	0%	15%
	Raw Material	9%	0%	0%	7%
Export Sales Outside of Africa	Finished Assembled	77%	75%	100%	90%
	Partially Finished	10%	25%	0%	10%
	Raw Material	13%	0%	0%	0%

Source: World Bank staff.

Note: Pertains to sales to private firms. Data pertain to 2005 median values.



# Policy Recommendations





## “At-the-Border” Formal Policy Reform (1)

- *For all countries:* Lowering the level of tariffs overall on MFN basis in the context of WTO negotiations.
- *For China and India:* Eliminating the escalating tariffs that limit Africa’s leading exports.
- *For most African countries:* Eliminate anti-export bias in import tariff policies; and reduce bias in investment decisions and disincentives for product diversification



## “At-the-Border” Formal Policy Reform (2)

- *For most African countries, China & India:* Eliminating NTBs, including technical standards as protectionist measures.
- *Primarily for African countries:* Rationalizing and harmonizing existing “spaghetti bowl” bilateral and regional agreements
- *For African countries:* Strengthening the role of Investment Promotion Agencies (IPAs) and public-private investors’ councils
- *Primarily for African countries:* Export and investment incentives must be tailored to country-specific circumstances and in concert with WTO rules.



# Beyond Formal Trade and Investment Policy Reform (1)

## ■ “Behind-the-Border Reforms”

- *Primarily for all African countries:* Enhance domestic inter-enterprise competition by:
  - Eliminating fundamental economic and policy barriers to entry
  - Eliminating exit barriers (reducing subsidies and eliminating practice of tolerating arrears)
- *Primarily for all African countries:* Improve governance through:
  - Greater transparency and accountability of public officials’ conduct
  - Efficient institutions which facilitate effective resolution of commercial disputes



# Beyond Formal Trade and Investment Policy Reform (2)

## ■ “Behind-the-Border Reforms” (cont’d)

- *All African countries*: Reduce poverty impacts from domestic price/production changes by trade flows through promoting labor mobility, including:
  - Enhancing wage differentiation and adaptability
  - Improving the effectiveness of social safety net



# Beyond Formal Trade and Investment Policy Reform (3)

## ■ “Between-the-Border” Reform

- *Primarily for all African countries:* Further development of trade facilitation infrastructure for integration into the global market as well as regional integration within Africa, including:
  - improvement and modernization of ports, road, and rail transport
  - Improvement and modernization of telecommunication/IT capacity.
  
- *Primarily for all African countries:* Customs reform through:
  - Improving coordination among border-related agencies
  - Simplify customs procedures and make customs codes rule-based, transparent and commercially-oriented
  - Introduce the use of IT into the customs system



# Beyond Formal Trade and Investment Policy Reform (4)

## ■ “Between-the-Border” Reform (cont’d)

- *Most African countries*: Address imperfections in the “information market for trade and investment opportunities,” incl. technical standards
- *Primarily for all African countries*: Review measures that restrict the movement of professionals (Mode IV reform)



# Beyond Formal Trade and Investment Policy Reform (5)

## ■ Reforms to Enhance Trade-Investment Complementarities and Network Trade

- *Most African countries*: Bringing the regime governing FDI in line with international best practices, which typically includes:
  - Adhering to “national treatment” for foreign investors
  - Prohibiting the imposition of new and/or phasing out the existing TRIMs such as local content measures
  - Providing for binding international arbitration for investor-state disputes, tailored to country-specific circumstances



# Beyond Formal Trade and Investment Policy Reform (6)

- Reforms to Enhance Trade-Investment Complementarities and Network Trade (cont'd)
  - *All African countries*: Deregulation of services, including implementation of market-reinforcing reform of regulatory procedures and rules
  - *All African countries*: Enhance flexibility in capital markets
  - *All African countries*: Strengthening training and secondary and post-secondary educational programs for workers and managers





# Actions by Policy-Makers (1)

## ■ International Community (Bilateral and Multilateral Donors)

- TA to support capacity building in African countries with priority areas on “aid-for-trade” issues such as:
  - Trade facilitation
  - Technical standards
  - Customs regime improvement
  - Harmonization of RTAs
  - WTO accession
  - Governance reforms



# Actions by Policy-Makers (2)

## ■ African, Chinese and Indian Governments

- Efforts to implement their reform agenda by their hands
- Reforms beyond formal trade and investment policies involves actions to:
  - Enhance domestic competitions
  - Foster labor market flexibility
  - Improve trade facilitation mechanisms
  - Liberalize services sectors and implement associated regulatory reforms
  - Improve investment climate to attract foreign investors
- Trade policy reforms through:
  - Reducing tariff and non-tariff barriers
  - Eliminating tariff escalation
  - Removing disincentives to exporting
  - Pursuing WTO accession (for non-members)
  - Rationalizing, harmonizing, and modernizing existing RTAs