

The trade between china and sub saharan africa economics essay

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China's economy is still expanding. With the purpose of obtain power China needs a substantial position in the global economy. To maintain the economic advancement, China focuses on gaining natural resources. With the abundant presence of natural resources, Africa seems to be exceptionally suitable for a successful partnership. The trade between China and Africa aggregate more than \$50 Billion. (The World Bank Research Observer, 2007) Besides the capacious export of natural resources to China, Africa imports copious primary commodities. (Ibid). But is this partnership as profitable for Africa as it seems to be? In this part of the paper we will look to the trade between China and Sub-Saharan Africa. Imports and exports from Sub-Saharan Africa will be discussed. To indicate the impact of this trade on SSA1 we will first indicate the trade partnership between China and Sub-Saharan Africa. The last decade China has becoming an important player in the international world trading system. (The World Bank Research Observer, 2006). In comparison with other countries, China has gained the most foreign direct investment. Moreover, China has become the centre of manufacturing. (Ibid). The rising trade with the African continent also confirms China's connection with the world economy. The trade between China and SSA amazingly increased since 2001. In 2002 the value of trade was close to \$10 billion. Moreover, in 2005 the trade volume was more than \$40 billion and in 2006 even more than \$50 billion. (Ibid). The following figure shows the trade balance between China and SSA in the period of 1980-2004. (IDS, 2007). The figure confirms the extraordinary increasing trade since 2001. Figure 1 China has a third place in the list of the largest commercial partners of Africa. China has become the second main exporter

to Africa after France. France and the United States are the main commercial partners of Africa. (Strategic Analysis, 2006) To form a picture of the trade between China and SSA we will analyse imports and exports separately.

SSA Exports to China

With a booming economy, China is trying to sustain its industrial growth. As a consequence, China's demand for energy and natural resources amazingly increased. This growth has advanced new export indications for Africa. Logically, the exports from Africa to China consist predominantly of oil, minerals and timber. (Edwards and Jenkins, 2006).

Figure 2: Composition of SSA's exports to China

China's increased demand for oil can be clarified by the expanding economy. But beside it, the increased welfare in the society has developed the demand for consumer goods. (Ibid). After the United States, China is the second-largest consumer of oil in the world. (China, Africa and Oil, 2006) In 1993 China turned out to an energy importer in place of net exporter, this was a dominant change. (Strategic Analysis, 2006). China's import dependence on oil is still increasing. (IDS, 2007). According to the International Energy Agency, China's net oil imports will increase to 13, 1 million barrels per day by 2030. (China, Africa and Oil, 2006) While the net oil imports were 3. 5 million barrels per day in 2006. (Ibid.) Therefore, China is looking for new oil suppliers, with the purpose of expand their sources and acquire energy security. (Strategic Analysis, 2007).

Figure 3: China's Oil Demand and Net Imports

With the founding's of new sources in Africa (Namely in Nigeria, Angola and Equatorial Guinea), China has new possibilities of success with exploiting this sources. (Ibid). The international oil companies are willing to invest in the African continent for several reasons. African oil is of good quality. African leaders are taking care of good conditions for Chinese companies and most of the oil is found offshore. This has benefits for loading the tankers and accommodates a level of stability in oil production levels. (Ibid) One-third of the oil imports from China are coming from Africa. (China, Africa and Oil, 2006) However, this is just a part of 9 percent of Africa's total oil exports from 2006. (Ibid). China's largest oil suppliers are Angola, Equatorial Guinea, Republic of Congo and Sudan. (Ibid). Together with Nigeria, these oil rich countries are responsible for eighty-five percent of Africa's total exports to China. Price increases and effects of China's increased demand for oil will be discussed afterwards in this chapter.

Figure 4: China's Imports from SSA (SSA's Exports to China), 2004, Value in US\$ Billion.

Besides China's main imports of oil, the trade between China and SSA also consist of other merchandise imports of China. (The World Bank Research Observer, 2007). Table 1 affords the merchandise imports of China coming from SSA. A couple of the main imports (Timber, Cotton and Metals) will be analysed. Timber (Wood and articles of wood) Besides oil, timber is a necessity to import to sustain China's economic growth. As far as recently, China's domestic loggers took care of China's timber demand. (Strategic Analysis, 2006) After the overflow of the Yangtze River in 1998, China is

protecting their forests and is replanting woodlands. The overflows as a consequence of logging, has made clear that logging will result in extensive damage. (Ibid). Correspondingly, China was forced to import timber from other countries. (Ibid) The import of timber has more than tripled subsequent to 1993. According to Figure 4, the value of wood imports was close to \$74 Billion in 2004. Wood from the forests of Cameroon, Equatorial Guinea, Gabon, Liberia and Congo are exporting to China. However, 50 per cent of the total timber exports of Cameroon would be coming from illegal logging. In Congo, Equatorial Guinea and Liberia this amount has increased to 90 per cent. (Ibid.) In national trade statistics the categories of wood exported aren't announced. (Ibid). To determine its real impact has become impossible with this lack of statistics. CottonChina is one of the world leaders with respect to the exports of textiles and clothing. (Strategic Analysis, 2006.) However, China still needs the cotton imports of the United States. (Ibid). Nevertheless, since the mid-1990's the share of exported cotton coming from African countries has increased. (Ibid). For instance, Burkina Faso, Mali, Guinea, Nigeria, Togo, the Central African Republic and Benin are exporting cotton to China. Metals(Handel tussen Africa en China in Metalen).....

SSA Imports from China

The imports of SSA from China consists predominantly of manufactured goods. The following table gives an indication of the exports of China to SSA. Textiles coming from China are a significant import of Sub-Saharan Africa. (Ibid). The market for consumer goods is relatively small in Africa. (Strategic Analysis, 2006) However, with a population of approximately 800 million

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people, Africa seems to be suitable as a market for Chinese cheap consumer goods of low quality. (Ibid). With this excellent conditions Africa is a new meaningful market for Chinese bargain manufactures. Accordingly, China is manufacturing low-quality and cheap basic products in Chinese state owned companies. (Ibid)With these products China is trying to take dominance of the African market. (Ibid) An informal network has built up, where manufactures are sold from trading posts. (Ibid. The urban and rural regions are both achieved with this strategy. (Ibid). The Chinese presence of traders in SSA has increased since 1949. (Strategic Analysis, 2006). The Chinese merchants are importing cheap manufactures from China. (Ibid). With the confined purchasing power in Africa, the desirably priced products seem to be appropriate for the African market. (Ibid). The African population consists of conceivable new consumers for their products. (Ibid). Therefore, the exports from China are approaching to African countries with a large population and with a relatively high purchasing power. (Ibid). For example, South Africa, Nigeria, Egypt, Morocco and Algeria have appropriate markets. (Ibid). Together these countries are responsible for 58 per cent of African imports of China. (Ibid). China supplies and exports increased quantities of textiles and clothing world wide. As a result of China's low labour costs, it's achievable to make attractively priced textiles and clothing. (Ibid). However, imports from China can result in displacing from local productions. The share of SSA imports from China will be attended while assessing the impact of Chinese imports for SSA.

Determine the Impact for Sub-Saharan Africa

Indicating the trade between China and Sub - Saharan Africa is a foundation for assessing the impact of the China-SSA relation. In the following chapter we will indicate the effects of China's influence on Sub-Saharan Africa. The effects can be both complementary and competitive. An effect is complementary when both countries gain from the relationship. However, when an effect is competitive, one country will gain from the relationship but the other will suffer. Besides the difference between complementary and competitive effects, there is a separateness between direct and indirect impacts. The direct effects are consequences of the bilateral trade between China and SSA. However, indirect effects are a result of China's connection with third-country markets, which is indirectly influencing SSA economies. The following table indicates a short summary of the following chapter. (IDS, 2007)

Figure 6: Trade Impacts for Sub-Saharan Africa

Direct Impacts

Indirect Impacts

Complementary

New exports opportunities for SSA countries

Improved terms of trade from increased world prices of commodities

Competitive

Displacement of local producers by imports of China

Effects of Indirect Trade links

Also a complementary effect

Composed by the use of Edwards and Jenkins 2006 and IDS 2007

Direct Impacts

New Export markets

China's increased demand for several commodities has developed the opportunities for new export markets. (IDS, 2007) Therefore, the African economies are building up a trade network with China. (Ibid). Between 1995 and 2005, the allowance of SSA exports to China of oil, iron ore, cotton, diamonds and logs, increased from less than 50 per cent to more than 80 per cent. (Ibid). Predominantly the growth in exports of oil was astounding. (Ibid). Therefore, we will give a more expanded analyses of this sector. First we will indicate the growth of exports to China from 21 SSA countries.

Figure 8: Growth of Exports to China (1998) as % of African countries' total exports in 1998

Angola and Sudan are the main exporters of oil to China. (IMF Databases). In the period of 1998-2003 Angola's growth of exports to China increased with 53.7 per cent. (Table 9; IMF Databases; Edwards and Jenkins 2006).

However, Sudan's growth of exports to China in the period of 1998-2003 contains 196.8 percent. (Ibid). (Growth as % of the African countries' total exports in 1998). (Ibid). As a consequence, the share of China in exports of Angola contains 23.2 per cent in 2003. (IMF Databases) Moreover, China's share in Sudan's exports contains 40.9 per cent in 2003. (IMF

Databases) Figure 9 shows the Net Energy imports (% of energy use) from Angola and Sudan. (The World Bank). The growing negative value means that both countries are growing net exporters of energy. (Ibid). As can be concluded from this Figure, the increased demand for energy sources results in growing exports of these resource rich countries. Predominantly in Sudan, China's share in their total exports is substantial. Since 2001, China's trade with SSA amazingly increased since 2001. (The World Bank Research Observer, 2007) As a results, around 2001 also the exports of energy from Sudan and Angola exceptionally increased. (According to this figure). (The World Bank).

Figure 9: Energy imports, net (% of energy use)

Net energy imports are estimated as energy use less production, both measured in oil equivalents. A negative value indicates that the country is a net exporter. Energy use refers to use of primary energy before transformation to other end-use fuels, which is equal to indigenous

production plus imports and stock changes, minus exports and fuels supplied to ships and aircraft engaged in international transport. Source International Energy Agency (IEA Statistics © OECD/IEA, <http://www.iea.org/stats/index.asp>) and United Nations, Energy Statistics Yearbook. Catalog Sources World Development Indicators To conclude whether these new export opportunities of oil are positive, the GDP per capita will give more information. The following figure attests an increased GDP per capita since 2001. Because of the fact that also Angola's and Sudan's trade with China and their exports increased since 2001, it should be reasonable that this has played a role in the increase of their GDP. In summary, Angola's and Sudan's increased market opportunities and exports have had a positive influence on the GDP (per capita) of both countries. For simplicity effects of other factors on the GDP of Sudan and Angola aren't included in this survey.

Figure 7: GDP per capita (current US\$)

GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U. S. dollars.

Source: Data World Bank

Future expectations for export markets In future prospects the importance of China as direct destination for SSA exports will increase further. (Edwards and Jenkins, 2006) China's booming economy results in an increase of the

income of the population. (Edwards and Jenkins, 2006). In 2005 the GDP per capita consist of 1731\$. (The World Bank Database). In 2009 the GDP per capita had increased to 3744\$. (Ibid). As a consequence of an increasing GDP per capita, the structure of demand in China will change. (Edwards and Jenkins, 2006) The demand for food products with a high income elasticity of demand (Meet products, fish, fruit and beverages) will increase. (Ibid). Possibly, there will be new market opportunities for SSA countries with respect to agricultural exports. (Coffee and Sugar). (Ibid). The continuing industrializing of China will also maintain the demand for raw materials and energy. (Ibid). Concluding, also the future prospects promises increasing market opportunities for SSA countries.

Displacing of local producers by imports of China

SSA's imports from China consist predominantly of manufactured goods. (Strategic Analyses, 2006). To indicate whether these imports compete with domestic production, it is of significant importance to measure the amount of imports coming from China and their share in the GDP of a country. (Edwards and Jenkins, 2006). For 21 countries from Sub-Saharan Africa, the imports from China as a share of total imports and their GDP are measured for 2003. (Ibid). The following figure shows these results.

Figure 8: Imports from China as a share of total imports and of GDP, 2003

Edwards and Jenkins, 2006 According to these results, there are seven countries where the percentage of imports from China accounts more than 5% of their total imports. Compared to the other SSA countries, Sudan is the largest importer of products from China with a percentage of 14. 2. (Figure 7: <https://assignbuster.com/the-trade-between-china-and-sub-saharan-africa-economics-essay/>

Edwards and Jenkins, 2006) The imports from China of Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Uganda, Nigeria and South Africa, also accounts more than 5% of their total imports. (Ibid). However, there are five countries where these imports are a share of more than 2% of their GDP. (Ibid). Ghana with the highest percentage of 4.8, and Lesotho, Nigeria and Sudan accord to this group. (Ibid). Negative effects for domestic production should have the most influence in these countries. (Ibid). We will indicate the effects of Chinese imports for a couple of these countries in the following paragraphs. The imports from China results in two different effects. (Edwards and Jenkins, 2006) On the one hand, cheap products will be available in increased amounts for SSA countries. (Ibid). This will force local producers in SSA to decrease their prices, which will result in benefits for local consumers. (Ibid). However, the low labor costs and high technology of China will propose strong competition for local producers in SSA. (IDS 2007 and Edwards and Jenkins 2006). A decrease in output, plant closures and job losses could be results from the strong Chinese competition. (Edwards and Jenkins, 2006) According to orthodox economics, the loss to producers will be compensated by the benefits for consumer welfare in the long run. (Ibid). However, the effects in the short run will be negative where express reallocation of resources is impossible. (Ibid). When SSA imports from China are at the expense of other exporters to SSA, importing from China will have a small effect on domestic production. (Edwards and Jenkins, 2006). According to Edward and Jenkins, imports from China have substituted for other imports. (Ibid). As a result, domestic unemployment as a consequence of imports from China should be relatively small. (Ibid). This optimistic

picture of the trade between China and SSA is contradicted by the consequences of Chinese imports in several SSA economies. (Kaplinsky and Morris, 2006). In Ghana and South Africa the effect on locally produced clothing and furniture in South was displacing by Chinese imports. (IDS, 2007). Also Zambia (where Chinese imports are just 1% of their GDP) contradicted negative effects. (IDS 2007 and Edwards and Jenkins 2006) Clothes imported from China have attenuated the clothing and textile sector of Zambia. (IDS 2007) Moreover, Nigeria have faced with 350. 000 job losses as a consequence of Chinese shoe imports. (Ibid). In Ethiopia improved process and design were consequences of Chinese imports. (Ibid) However, employment and domestic production in Ethiopia were negatively affected. Last but not least, a couple of results from a survey with 96 micro, small and medium domestic producers from SSA. First, 32% of domestic producers were forced to decreasing activity as a result of Chinese imports. Moreover, 28% of the domestic producers were applied into bankrupt. The average of 7 employees in micro companies decreased to 4. 8 employees. The average of employees in small and medium enterprises falls from 41 to 17. Besides the impact on existing producers, also displacement for future production will be a consequence of Chinese imports. (IDS, 2007) Concluding, the share of Chinese imports in total imports and their share in the GDP of several SSA economies seem to be relatively small. (Edwards and Jenkins, 2006). However, several SSA economies had to deal with the negative effects of Chinese imports. Predominantly with respect to clothing and footwear manufacture. (IDS, 2007)

Indirect Impacts

Improved terms of trade from increased world prices of primary commodities

China's imports and exports are effecting global prices. The enlarged demand for oil and minerals has resulted in rising commodity prices. However, large supply of cheap manufactured goods, have resulted in falling manufactures prices. China is affecting the global economy with these price settings, and is forcing revolution in countries terms of trade. (The World Bank Research Observer, 2007)The recent upward movement in commodity prices has been driven by very strong demand and emerging supply constraints. Rising imports by China, and, for some commodities also India, have been the main sources of additional demand."(UNCTAD, 2005, p. 73). Oil and mineral exporters have benefit from the increased prices. The international price change of oil (2000-2005) contains 89 per cent. (Table 9; IMF Databases). Corresponding to Sudan and Angola, the terms of trade from both countries substantially increased (2000-2005, Table 9) (IMF Databases). An 89. 1 per cent increase in the international price of oil can't be solely clarified by increased Chinese demand. (Table 9; IMF Databases) However, the effect of China in the international price change of oil contains a percentage of 18. 4. (Table 9; IMF Databases). As a consequence of the increase in the terms of trade of Angola and Sudan, the GDP from both countries is positively affected. This will be explained further in the following paragraphs. Besides oil, minerals have transubstantiate a substantial price change. China is the largest consumer of steel, copper, coal, platinum and cement. (The World Bank Research Observer, 2007) With the enlarged

demand for these metals, China has turned to the fundamental operator of price dynamics in the metals market. (Ibid). According to the Economist Commodity Price Index, there is a distinguished change in the price of metals. With 2000 as base year, in 2010 the price index of metals came about 216, 8 (15th June). (The Economist). This represents an enlarged change of 116, 8 per cent in the price of metals. (Ibid). These price dynamics are influencing countries term of trade. (Edwards and Jenkins, 2007) Africa's terms of trade advanced by approximately 30% between 1999 and 2004. (Ibid). This indicates the increase in price of a couple of commodities, predominantly oil and minerals. (Edwards and Jenkins, 2007). There are several SSA countries where the increased commodity prices result in positive effects for the GDP. (Edwards and Jenkins, 2006). Angola, Nigeria and Zambia are assessed with large improvements in their terms of trade. (> 3% of GDP) (Edwards and Jenkins, 2006). Besides, Cameroon, Democratic Republic of Congo and Sudan encountered common terms of trade improvements. (between 1% and 3% of GDP). (Ibid). Other SSA countries (except Kenya) encountered relatively small effects on their GDP. (Ibid). The following table contains important information about African Commodity Prices, Terms of Trade and Chinese demand in the period of 2000-2005 for SSA countries. Source: The World Bank Research Observer, 2007 According to this Table, Chinese impact on several commodities is substantial. However, the influence on SSA economies will be rather different. Rising prices of oil and minerals are indicated as a positive effect. (The World Bank Research Observer, 2007) However, the decreasing prices of global manufactures are determined as a negative effect. (Ibid). It should be clear that this will result

in various effects for different SSA economies. We will make this clear while assessing the impact of the indirect trade links.

Effects of Indirect Trade Links

In the following paragraphs we will assess the impact of indirect trade links.

A couple of these effects aren't consequences of the China-SSA relation.

However, China's imports and exports have an important influence on SSA countries. China's economy has indirectly a significant influence on SSA.

Therefore, we will also indicate the influence of indirect trade links for SSA economies. The Trade Complementarity Index calculates useful information about the contemplations for intraregional trade. (The World Bank). The index clarifies whether the imports and exports of a country match. (Ibid).

Besides, the values for countries conceding the formation of a regional trade agreement can be analyzed with others that have formed or tried to form similar arrangements. (Ibid). According to Stevens and Kennan (2006), this

index is a useful appliance to indicate China's indirect effects on SSA. (IDS, 2007). Analyzing comparatively intensively traded products by developing

countries, which are convincing and expeditiously growing-export and import products for China, gives useful results. (Ibid). As a consequence of using the

TC Index, seven considerable imports into China are determined besides

eight major Chinese exports. (Ibid). The major imports into China consist of

five commodities, animal feeds and chemicals. However, the considerable

Chinese exports consist of six manufactures, ferrous metals and aluminium.

(Ibid). Major SSA exporters and importers have diagnosed in each situation.

(Ibid). Impact for Several Economies (depending on their imports and

exports)The following conclusions can be assembled according to this

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analyses. (Ibid). Countries which export a product that China imports can be actuated as gaining countries. (Ibid) Namely, the Chinese demand for imports can offer growing market opportunities for African countries. (IDS, 2007). Furthermore, decreasing prices of more applicable Chinese products has also benefits for importers of products which China exports. (Ibid). However, these circumstances will also result in negative effects for several SSA economies. (Ibid). The economies will suffer from these circumstances if they export products that China also exports. (Ibid). China will offer substantial export competition. (Ibid). Moreover, the revenues of these export products will decrease as a consequence of the falling prices. (Ibid). The countries that import products which China also imports from the world, will also encounter negative effects. (Ibid). China's enlarged demand for certain products results in rising prices. (Ibid). The following table shows the results of these analyses. Are the SSA countries benefiting from these indirect trade links? Are the benefits dominating the losses? According to this methodology from Stevens and Kennan (2006), the indirect trade links results in more benefits for Sub-Saharan Africa compared to losses. (IDS, 2007) Most of the benefits are gained by SSA countries that import products which China exports. Divided by the SSA countries, in total there are 43 sectors which will benefit from this trade link. (Column 2). (Ibid). Furthermore, some countries experience benefits from the export of products which China imports. The SSA countries combined; there are 14 sectors which will gain from this trade link. (Column 1). (Ibid). The benefits are significantly dominating the losses, where in the aggregate 19 sectors will suffer from the trade links. (Column 5 and 6). In summary, using the

theory of Stevens and Kennan (2006), several countries gain from China's trade (With SSA or with other continents). China's influence on the global economy is substantial, and their imports and exports influences SSA economies. Depending on their imports and exports, SSA countries will benefit or suffer from China's influence. However, by adopting this theory, the benefits for SSA countries are dominating the losses.

Trade Overlap – Number of Sectors by Country

Potential gain: Column 1 - SSA exports which China imports; Column 2 - SSA imports of China exports; Column 3 - addition of Columns 1 and 2
Potential loss: Column 4 - SSA exports what China exports; Column 5 - SSA imports what China imports; Column 6 - addition of Columns 4 and 5
Source: From Stevens and Kennan (2006). (IDS, 2007)