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## China's Manufacturing and Industrialization in Africa

Ron Sandrey and Hannah Edinger



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AFRICAN DEVELOPMENT BANK GROUP

## **China's Manufacturing and Industrialization in Africa**

Ron Sandrey<sup>1</sup> and Hannah Edinger<sup>2</sup>

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## **Abstract**

**While a succession of Asian countries have exhibited dramatic growth over the last thirty to fifty years, Africa has largely stagnated. This Asian expansion has been driven by manufacturing exports to the US in particular, and enabled through an overall constructive policy package that opened markets, implemented favourable trade and exchange rate policies, and provided a sound and stable government that inspired investment and secured property rights. Conversely, Africa has been unable to put the full package in place, and this has resulted in a manufacturing sector whose contribution to both GDP and export shares is significantly below the continents' developing country peers. Growth in natural resource-rich developing countries in general has lagged behind those with a manufacturing focus, and this is especially**

**the case in Africa with its poor linkages into unskilled labour and its appetite for rent-seeking activities. Africa's industrial base is not as robust as theory suggests it should be. Using the continent's export profile to the US 90 percent or more is either a dominant mineral fuel or precious minerals for those African countries with significant exports. Other than South Africa, manufacturing exports are notably absent, with only textiles and clothing featuring in those countries where manufacturing also features. Importantly Africa has difficulty to capitalise on its significant tariff preferences into the US, and we examine the thesis that China is making it harder for Africa to diversify away from its natural resource-based export profile.**

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## **1. Introduction**

China, as well as several other Asian economies, has achieved spectacular growth rates through opening markets to facilitate sensible price signals, operating trade and exchange rate policies that favour exports over imports in at least the initial stages, providing a sound incentives framework for investment, and developing large-scale physical infrastructure. These policies have fostered dynamic gains from increased production and export of manufactures. In Africa, by contrast, the acceleration of growth from 2001 until the global recession was based on higher primary commodity prices, while diversification into manufactures production has been limited.

The objective of this paper is to examine the state of industrialization in Africa and to discuss the interactions between China's growth and African development. African nations are linked to China through that country's importance in determining the prices of raw materials, China's demand for Africa's raw materials exports, substantial investments in Africa, and exports of low-cost investment and consumer goods. However, there is concern that these exports are damaging Africa's industrial base, while reliance on commodity exports will not support poverty reduction as commodity production generates limited demand for unskilled labour and increasing scope for reliance on rent-seeking rather than productive activities. Goldstein et al. (2006) conclude that China can have a net positive impact on Africa, but only with improvements in governance and policies that support diversification, backward and forward linkages between sector enclaves and the rest of the economy, increased demand for labour, and skills upgrading.

We begin with an analysis of Africa's export performance and diversification. The next section considers how China has affected African growth over the past decade or so, focusing on the implications of China's manufactured exports, Chinese investment in Africa's resource sector, and China's encouragement of export processing zones. A key question is whether China's rapid growth in manufacturing combined with Africa's exports of natural resources is effectively blocking off Africa's ability to follow a manufacturing-led growth path. The final section offers some policy recommendations.

## **2. The State of Industrialization in Africa**

### ***2.1. The Background***

Given its natural resource wealth, it is only natural that Africa exports a considerable share of its oil and mineral commodities. This is consistent with general trade theory. But most African states import many goods that require a large semi-skilled and unskilled labour base to produce. This is not so consistent with theory, as these African countries, with a large pool of unskilled labour, should be producing and exporting these goods.

Most African countries have achieved only limited diversification from primary commodity exports to manufactures, and often small gains in diversification have been reversed quickly (Hammouda and others, 2006). The United Nations Economic Commission for Africa (UNECA, 2007) describes Africa's progress in diversification over the last few decades as "slow and volatile". Progress has differed across regions. North Africa recently has achieved the most gains, and SADC and COMESA also have made progress, led by structural transformation in key economies (in the case of SADC, South Africa) (UNECA, 2007).

The production of manufactures (value added as a share of GDP) in Africa remained constant from 1995 to 2004, and has remained far below the average of its developing country peers (Table 1). Manufactures accounted for only 10.9 percent of the GDP of the 20 largest African economies in 2006 (9.6 percent if South Africa is excluded).<sup>3</sup> Fukunishi (2004) finds that manufactured exports equalled only 6 percent of Sub-Saharan Africa's GDP—a little over half of the 11 percent average for all low income countries—and the value of manufactured exports equalled 50 percent of value added in manufacturing, compared to 59 percent for all low-income countries. He concludes that the poor export performance is the key reason for the stagnation of the manufacturing sector in Sub-Saharan Africa.

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<sup>3</sup> This calculation is based on data from UNIDO. The average weighted MVA for 2000 was 11.6 for the top twenty economies with South Africa and 10.2 without South Africa, as South Africa's MVA declined from 17.25 in 2000 to 16.33 in 2006. Of the top twenty economies in 2006 the MVA was below 5 for seven, between 5 and 9.9 for six, between 10 and 14.9 for two and over 15 for the remaining five (South Africa, Egypt, Tunisia, Cote d'Ivoire and Senegal). Of the twenty, twelve saw a decline in MVA ratios between 2000 and 2006.

**Table 1: Share of manufacturing value add (MVA) as a % of GDP  
(at constant 1995 prices)**

	<b>1995</b>	<b>2000</b>	<b>2004*</b>
<b>Africa</b>	12.1	12.3	12.1
<b>China</b>	34.7	36.7	39.0
<b>India</b>	16.3	15.7	15.0
<b>Developing Group excluding China</b>	19.2	20.0	20.4
<b>WORLD</b>	19.8	20.1	19.9

Source: UNIDO International Year Book 2006, reported in Kaplinsky (2008)

Fukunishi (2004) and Kaplinsky and Morris (2008) show that SSA's productivity is lower and that labour costs are higher than in other low-income economies (and in Asia in particular), and that these factors are accentuated by over-valued exchange rates, low FDI levels and small firm sizes in Africa. Although there are differences among African countries, in general high indirect costs and business-environment related losses impair the productivity of African firms. African gross productivity<sup>4</sup> is only 40-80 percent of China's.<sup>5</sup>

The creation of competitive industrial capacity has been hindered by: (i) low investment; (ii) poor infrastructure services, resulting in higher production and transaction costs; (iii) high sovereign risk, poor governance and weak institutions; (iv) ill-advised industrial policies; and (v) generally rigid macro-economic frameworks (UNECA, 2007). Africa's problems are accentuated by the small size and ethnic fragmentation of many countries that too often results in internal conflict, by the geographical nature of many landlocked resource-scarce states, and by the implications of letting Asia "get too far ahead". Soderbom and Teal (2001) caution that improved macroeconomic policies alone may not be sufficient to boost economic growth. Policies that target improvements in the operational efficiency of firms, coupled with macroeconomic reforms, would help firms become successful exporters and substantially

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<sup>4</sup> Where gross productivity relates to the usual concept of total factor productivity, while net total factor productivity takes out the indirect costs that are outside of the control of the individual firms but contribute to higher operating costs.

<sup>5</sup> This range depends upon how the productivity estimate is calculated and falls even further when net productivity is analysed, to only 20-40 percent of China's productivity.

improve countries' economic performance. In general, political leadership is required to eliminate constraints on infrastructure, skills development, and entrepreneurship.

## ***2.2. What Should Africa Produce?***

The desirable structure of African production is a matter of some controversy. Wood and Mayer (2001) argue that Africa should follow a land-abundant development path similar to that followed by the United States, rather than the model followed by the land-scarce Asian economies.<sup>6</sup> The highest priority should be to raise exports, relying on Africa's abundant natural resources. They argue that even if Africa were to eliminate the policy constraints on manufactures production, so that manufactures export performance achieved its estimated potential, manufactures would still make up less than 30 percent of total exports, marginally above Latin America's 28 percent but significantly below the 60 to 70 percent levels in East and South Asia. The limited potential for manufactures implies that substantial increases in SSA's output and exports must depend on the expansion of natural resource-based activities. Eifert et al. (2005) confirm that African manufacturing and manufactured exports are high-cost relative to the continent's levels of income and productivity. And Lederman and Maloney (2007) state that raw materials should be seen as "neither a curse nor destiny", and can contribute to development when coupled with policies that support innovation. Knowledge, the availability of infrastructure, and the quality of governance together determine what countries produce and how they produce it.<sup>7</sup>

Other observers find that Africa's dependence on natural resources must be overcome because it limits development. Natural resource dependence has often been accompanied by widespread corruption, weak institutions, and rent seeking. Volatile primary commodity prices have imposed high levels of volatility on resource-dependent African economies, while these economies have only limited ability to protect the vulnerable. Investments in natural resources contribute little to the employment of the unskilled, and thus often have a limited role in reducing poverty. And resource-rich developing countries have often experienced slower growth than their non resource-rich developing country peers since the 1960s.

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<sup>6</sup> By now, of course, the US has moved towards a service economy.

<sup>7</sup> For most sectors, the patterns of comparative advantage are better explained by the set of new endowments (what one does) than by traditional endowments (what one has). Only in the raw materials and forestry sectors do the traditional endowments predominate over the new endowments that are affected by public policies such as knowledge, schooling, infrastructure, ICT and institutions.

### *2.3. Where is Africa Competitive?*

Determining what goods Africa is most suited to produce, given its resource endowments and input costs, is a difficult exercise. Export performance can indicate what products are competitive in global markets, although the level and commodity composition of exports are influenced by distorted trading regimes in many African countries, as well as import preferences offered by trading partners. Given the general problem of reliability and timeliness of African data, our analysis of the competitiveness of African manufactures will use US import data, as the United States is the world's main export destination for manufactured goods.<sup>8</sup>

Several aspects of African exports are worth highlighting, in terms of country breakdown, commodity composition, and in comparison to Asian exports (table 2 & 3).<sup>9</sup> The bulk (89 percent) of Africa's exports to the United States are fuels or minerals, which account for more than 99 percent of exports from Nigeria, Algeria and Angola, and about 40 percent of exports from Egypt and South Africa. Fuels also dominated the only significant exporters among the medium-sized African economies. Textiles and clothing made up only 2 percent of exports (about \$1 billion each from Sub-Saharan Africa and North Africa) to the United States, three-quarters of this supplied by Egypt, Kenya, Mauritius and Lesotho. Nevertheless, textiles and clothing accounted for a significant share of Africa's manufactured exports to the United States, with other major products including transport-related goods (1.7 percent of total exports), base metals (1.5 percent), chemicals (1.3 percent), prepared foods (0.9 percent), and machinery and electrical equipment (0.6 percent).<sup>10</sup>

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<sup>8</sup> We have omitted an analysis of African trade with the EU, although this trade is more important than the US trade for several North African and West African economies. We use the US as the benchmark manufacturing market as this market has been the final manufacturing market for successive waves of Asian growth economies.

<sup>9</sup> The data were selected for table 4 to show exports by: (i) The 20 largest African economies (South Africa, Egypt, Nigeria, Algeria, Morocco, Angola, Libya, Sudan, Tunisia, Ethiopia, Kenya, Tanzania, Cameroon, Ivory Coast, Ghana, Uganda, Botswana, Senegal, Gabon and the Congo), broken down by North Africa and Sub-Saharan Africa; (ii) the six largest African economies shown separately; (iii) countries where exports of clothing are important (Kenya, Mauritius and Lesotho); and (iv) some Asian comparators. Total exports are broken down by fuels and minerals (codes 27 and 71 of the Harmonized System (HS)), textile and clothing (HS codes 50 to 63 of Section XI), and within T&C, apparel (HS codes 61 and 62).

<sup>10</sup> Other African exports to the United States included a 'Special' category reserved by the US for classification purposes (0.5%), fruit and vegetables (0.4%) and plastics and rubber products (0.3%), with only the latter minor category being of traditional manufacturing interest. Wood and fats and oils reached individual shares of 0.1 percent, while "miscellaneous manufacturing", pulp and paper products, instruments (surgical etc), hides and leather, stones/glass/ceramics, footwear and arms/ammunition did not register significantly.

Apparel plays an important role in African manufactured exports. Ninety percent of textile and clothing exports to the United States were classified as apparel, which increased by 6 percent per year from 2000-08. In addition (not shown in the table), imports into the US from AGOA<sup>11</sup> countries during 2008 were some \$1,151 million, with all but \$13 million qualifying for AGOA preferences. Kaplinsky and Morris (2006) report that the nominal rate of tariff protection on apparel imports ranges between 16 and 32 percent, but with the exception of South Africa the AGOA suppliers to the US can incorporate duty-free imports of materials. They calculate that this raises the effective rate of the subsidy (the subsidy level that takes all factors into account and not just the tariff) to between 27 and 84 percent. Furthermore, they state that “this rate of subsidy is required for AGOA clothing producers to compete in the US market. This is because scales of production are low in SSA plants, and many producers suffer from poor bureaucratic and physical infrastructure”. Collier (2007) goes further and states that “What Africa needs is temporary protection from Asia in OECD markets”.

Finally, the European Union was an important market for North African apparel exporters, with EU apparel imports from Tunisia totalling €19.5 million, from Morocco as €11.3 million and from Egypt as €2.3 million. Imports from other African countries included those from South Africa (€12.4 million), Madagascar (€2.4 million) and Kenya (€1.3 million). Tellingly, while most African countries had tariff preferences into the EU under the old Cotonou Agreement (with these to be replaced by the Economic Partnership Agreements – EPAs), and South Africa has preferences under the Trade, Development and Cooperation Agreement (TDCA), these preferences are undermined by rules of origin constraints that are much more rigid than the AGOA rules offered by the US to African exporters (Naumann, 2004). Europe’s imports from Lesotho, Swaziland and Mauritius were negligible, showing these countries to be entirely focused on the US market.

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<sup>11</sup> The African Growth and Opportunity Act (AGOA) is a United States Trade Act that significantly enhances US market access for (currently) 39 SSA countries. The Act originally covered the period from October 2000 to September 2008, but was recently extended to 2015. A special dispensation relating to apparel also applies.

**Table 2: US imports from selected African and Asian countries (\$ billion/million and %)**

Region country	\$ billion total imports	% HS 27 & 71 fuels & minerals	T&C \$ million	T&C %	HS 61-62 % of T&C	Growth 61&62
<b>Africa</b>	113.5	89.1	2,266	2.0	90.6	6.0
<b>North Africa</b>	27.4	89.9	1,080	3.9	83.5	6.7
<b>SSA</b>	86.1	88.8	1,186	1.4	97.1	5.4
<b>RSA</b>	10.0	42.2	50	0.5	36.4	
<b>Egypt</b>	2.4	40.3	915	38.6	81.1	7.5
<b>Nigeria</b>	38.1	99.4	00	0.0	73.3	
<b>Algeria</b>	19.4	99.7	0	0.0		
<b>Morocco</b>	0.9	1.9	94	10.7	97.2	-0.6
<b>Angola</b>	18.9	100	0	0.0		
<b>Kenya</b>	0.7	0.5	247	71.9	99.9	
<b>Mauritius</b>	0.2	14.4	102	57.6	99.7	-11.0
<b>Lesotho</b>	0.4	8.2	340	90.8	100	11.1
<b>Asian countries</b>						
<b>China</b>	337.8	1.4	31,489	9.3	76.2	16.9
<b>Vietnam</b>	12.9	8.7	5,271	40.9	97.7	58.7
<b>Cambodia</b>	2.4	0.0	2,382	98.8	99.6	13.6

Note: Country composition and commodity definitions are given in footnote 21.

Source: US Department of Commerce, Trade Stats Express at <http://tse.export.gov/>

**Table 3: US imports from selected Africa countries, 2008**

Country	\$ million imports	% HS 27 & 71 fuel, minerals	T&C \$ million	Other main trade lines		
<b>Libya</b>	4,179	95.6	0	Special	Fertiliser	Org chem.
<b>Sudan</b>	5	0.0	0	Gums etc	-	-
<b>Tunisia</b>	644	58.0	71	Olive oil	Electrical	Fertiliser
<b>Ethiopia</b>	152	0.0	10	Coffee	Oil seeds	Special
<b>Tanzania</b>	56	29.7	2	Coffee	Fruit	Gums etc
<b>Cameroon</b>	614	88.6	1	Wood	Rubber	Cocoa
<b>Cote d'Ivoire</b>	1,092	35.6	0	Cocoa	Wood	Rubber
<b>Ghana</b>	222	58.3	1	Wood	Cocoa	Fish
<b>Uganda</b>	53	0.0	0	Special	Coffee	Other metal
<b>Senegal</b>	18	57.0	0	Special	Fish	Feathers
<b>Gabon</b>	2,279	95.9	0	Ores	Wood	Rubber
<b>DRC</b>	266	96.7	0	Wood	Unclassified	Milling prod

Source: US Department of Commerce, Trade Stats Express at <http://tse.export.gov/>

#### ***2.4. The Apparel Sector***

It can be expected that the labour-intensive apparel sector would play an important role in Africa's manufactured exports, given the continent's abundant low-skilled labour and preferential access to the United States and the European Union. Production of wearing apparel (SITC 84) is being transferred rapidly to developing countries in general, which accounted for only 28.2 percent of global production in 1995 but 57.5 percent in 2006; some two-thirds of this change took place during the 2000 to 2006 period, when the global value added in manufacturing declined by an annual average of 1.6 percent but the developing country value added increased by 5.9 percent annually. China has accounted for a large share of the developing world's apparel exports (see above for comparison with Africa), assisted recently by the expiration of the WTO's Agreement on Textiles and Clothing (ATC), although the US and other WTO members have retained the option of imposing restrictions on Chinese imports. The productivity and importance of apparel sectors also vary, with apparel making important contributions to growth in Egypt and Mauritius, but facing major impediments in South Africa (box 1).

#### **Box 1: Comparing major apparel sectors in African economies**

The apparel sectors of Egypt, South Africa and Mauritius illustrate some of the diversity in apparel production in Africa.

The apparel industry is one of the most dynamic industrial sectors in **Egypt**, comprising some 1,500 private sector apparel and intermediate manufacturers. It accounts for 20 percent of all of Egypt's exports, 3.5 percent of GDP, and nearly 30 percent of manufacturing employment (more than half a million workers). The latest technologies are adopted in all phases of production<sup>12</sup>. The industry covers the entire spectrum of cotton processing operations and is growing at an average rate of 6.5 percent annually. While the sector has relative advantages, Egyptian companies have not fully succeeded in leveraging the country's cotton into building a superior manufacturing industry (Magder, 2005).

In contrast to Egypt, the **South African** clothing sector faces severe structural problems. During 2008 R1 billion of the industry's contribution to GDP and 10 percent of the industry's workforce were lost (Bisseker, 2009). The industry has battled unsuccessfully for many years to attract capital and investment, reducing firms' ability to compete with low-cost producers, and leaving them vulnerable to Chinese imports. South Africa began applying quota restrictions to many lines of Chinese C&T imports from January 2007. These quotas were designed to protect the domestic sector, a sector already sheltered behind tariffs of 40 percent to imports from most

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<sup>12</sup> See Infomat Inc (2009).

sources outside of the Southern African Development Community (SADC); and a sector struggling to keep up with fashion trends and thus shorter product lifecycles, and to compete with speed-to-market of Asian producers.

In **Mauritius**<sup>13</sup> the textile and apparel sector accounted for about 66% of total manufacturing employment in 2004 (Joomun, 2006). Observers have feared that competition from China would hurt the sector, which declined by 12.5 percent in 2006. However, the sector grew by 8 percent in 2007 (Ackbarally, 2008), and the island imported more foreign labour from India, China and Bangladesh. Some studies have concluded that while resource-rich countries stand to gain from China's demand for oil and minerals, economies like Mauritius, with no commodity base and which compete with China in export markets, are likely to lose. However, Ancharaz (2008) argues that the economic impact of China on Mauritius has not been so negative, due to: the Mauritian economy's resilience and ability to adjust to global developments; and structural upgrading in the clothing industry, which has shielded it from Chinese competition in third markets; and export market diversification, which has partly made up for the loss of share in the US market, where Chinese competition has been most acute.

In summary, based upon exports to the US, the clothing sector is the only manufacturing sector in Africa that displays international competitiveness. However, the performance of the clothing sector varies considerably among African economies, and only a few are significant exporters. Moreover, the success achieved is built upon the rather unstable foundations of tariff preferences, and in particular tariff preferences that curtail the Chinese competition in the US market.

### **3. Challenges Facing Africa in the Age of the Chinese Dragon**

China affects African economic performance through several channels. China is an increasingly important market for African exports, while increased demand from Asia has played a significant role in the rise in the international prices of Africa's resource exports (Kaplinsky and others, 2007). Chinese export expansion has benefited African firms and consumers by reducing the price and increasing the availability of manufactures. At the same time, competition from Chinese manufactures in both domestic and third markets has reduced the demand for African manufactures and perhaps undermined Africa's manufacturing capacity. Finally, Africa has benefited from an inflow of Chinese aid, financing and investment, which in itself is coupled to trade flows. Beijing sees itself as a "partner in development" to the African continent, as

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<sup>13</sup> It should be acknowledged that Mauritius, with its geographical location and relatively high income is not representative of a typical African country.

reiterated in numerous state visits and the Forum on China-Africa Cooperation (FOCAC) summits (Davies et al, 2008). While China’s financial support is often seen as a longer-term strategy for its own development and benefit, direct and indirect assistance has resulted in economic benefits to Africa, spurring activity in the commercial corridor between China and Africa. The net impact of all of these influences varies greatly among African economies, depending on the commodity composition of their trade and their resource endowment, among other factors.

### ***3.1. China trade with Africa versus other regions***

Africa is hardly the most important trading partner for China: in 2008, Africa ranked 7<sup>th</sup> as an export destination and 8<sup>th</sup> as a source of imports. Nevertheless, China’s trade with Africa is expanding more rapidly than with most other trade partners. From 1995-2008 China’s exports to Africa rose by 23 percent per year, more rapidly than exports to Europe, the United States, or ASEAN countries (table 4). Similarly, China’s imports from Africa increased by 28 percent per year from 1995-2008, more than twice the rate of increase of imports from Europe or the United States.<sup>14</sup>

**Table 4: Chinese export destination and import sources, changes to 2008 (%)**

Country/region	Exports – percentage annual change		Imports – percentage annual change	
	From 1995	From 2004	From 1995	From 2004
<b>World</b>	<b>17.4</b>	<b>22.0</b>	<b>16.5</b>	<b>17.5</b>
<b>Africa</b>	<b>23.2</b>	<b>32.6</b>	<b>28.2</b>	<b>31.8</b>
EU -27	20.5	24.8	13.9	15.9
US	17.9	17.6	12.5	15.0
Hong Kong	12.8	15.9	3.2	2.3
Japan	10.8	11.4	10.8	11.4
ASEAN	18.4	24.5	19.0	15.5
Korea	18.5	24.4	18.4	14.8

Source: World Trade Atlas data, authors’ calculations

<sup>14</sup> Had we extended the table to the top 20 export destinations and import sources we would have found that there were seven export destinations that saw annual increases greater than Africa’s over the full period (India, United Arab Emirates, Brazil, Mexico, Saudi Arabia, Kazakhstan and Kyrgyzstan) but only three (Saudi Arabia, India and Iran) that had greater import increases.

Comparing Africa’s trade with China and the United States, Africa’s exports are dominated by oil and minerals (84 percent of Africa’s exports to China and 86 percent of Africa’s exports to the United States—table 5). Exports from China to the world, to Africa and to the United States show greater diversity, with the largest category machinery and electrical equipment, followed by textiles. By contrast, the share of textiles in Africa’s exports to China and to the United States is marginal.

**Table 5: Africa-China trade comparisons, 2008 data, \$billion & % shares**

<b>HS Sections</b>	<b>China from Africa</b>	<b>China to Africa</b>	<b>China to World</b>	<b>US from China</b>	<b>US from Africa</b>
<b>Total \$ billion</b>	<b>55,883</b>	<b>50,869</b>	<b>1,428,869</b>	<b>337,790</b>	<b>113,520</b>
<b>Mineral fuels</b>	83.9%	1.6%	2.5%	0.8%	86.1%
<b>Precious metal</b>	3.2%	0.1%	0.6%	0.8%	4.2%
<b>Textiles &amp; articles</b>	0.8%	17.5%	12.5%	9.3%	2.0%
<b>Transport</b>	0.0%	11.0%	5.0%	2.1%	1.7%
<b>Base metals</b>	4.6%	13.9%	10.1%	7.1%	1.5%
<b>Chemicals</b>	0.7%	4.6%	4.8%	2.9%	1.3%
<b>Prepared food</b>	0.5%	1.2%	1.3%	0.7%	0.9%
<b>Machinery &amp; elect</b>	0.7%	31.8%	42.7%	43.1%	0.6%
<b>Special</b>	2.8%	0.0%	0.1%	1.3%	0.5%
<b>Vegetable fruit</b>	0.3%	1.5%	0.8%	0.3%	0.4%
<b>Plastics &amp; rubber</b>	0.3%	4.3%	2.9%	3.6%	0.3%
<b>Wood</b>	1.8%	0.7%	0.8%	0.9%	0.1%
<b>Animal prod</b>	0.1%	0.3%	0.6%	0.6%	0.1%
<b>Misc man</b>	0.0%	3.2%	5.8%	14.3%	0.0%
<b>Footwear etc</b>	0.0%	3.2%	2.5%	5.1%	0.0%
<b>Stone/glass/ceramics</b>	0.0%	2.3%	1.6%	1.3%	0.0%
<b>Pulp &amp; paper</b>	0.1%	0.7%	0.7%	1.2%	0.0%
<b>Instruments</b>	0.0%	1.2%	3.3%	2.2%	0.0%
<b>Stone/glass/ceramics</b>	0.0%	2.3%	1.6%	1.3%	0.0%

Source: US Department of Commerce and World Trade Atlas data, authors’ calculations

In 2008, China’s total exports to Africa equal \$50.9 billion versus \$55.9 billion in imports from Africa. However, in these data China’s import valuation includes freight and insurance costs while the valuation of exports is f.o.b. (excluding freight and insurance). It is likely that (accurate) Africa data would similarly show a trade deficit with China.

### *3.2. Competition from China in manufactures*

In little more than 25 years China has evolved from an internationally isolated, centrally planned communist state into one of the world's fastest-growing economies, increasingly outwardly-oriented and market-driven. A "package" of reinforcing macroeconomic and political policies, fostering FDI inflows, as well as an export-led development strategy has positioned the country as a leading global manufacturing powerhouse and seen hundreds of millions of people move out of abject poverty. Thus Africa's adoption of outward-looking policies has come at a time when excess capacity in China and other Asian exporters has limited the continent's access to markets (Kaplinsky and Morris, 2008).

China's manufacturing sector is likely to continue to expand, supported by low wages and an enormous potential labour pool with high levels of innovation. The surplus labour force in China is possibly in the order of 100 to 200 million, in contrast to the earlier Asian growth economies (Japan and Korea) that quickly ran up against labour shortages and hence rising wage levels as their economies expanded (Bannister, 2005). Rapid growth in China's manufactured exports has reduced African manufacturers' market share in both domestic and third markets, as confirmed by Villoria (2009) for the clothing industries in Kenya, Mauritius and SACU members. At the same time, Chinese manufactured exports have reduced the prices of both consumer goods and industrial inputs in African economies. However, estimations of their terms-of-trade effects suggest that the reductions in export prices outweigh the decrease in import prices, and these countries were net losers from Chinese manufactures export expansion.

Chinese competition is perhaps most important for Africa in the clothing sector. US imports of apparel (HS 61 and 62) from China increased spectacularly from 2003 to 2007 (figure 1), before levelling off and then declining with the 2009 recession.<sup>15</sup> By contrast, US clothing imports from Africa, after increasing in the first few years of the last decade, stagnated after 2004. Looking at the data by SITC category,<sup>16</sup> total US imports of apparel and clothing (SITC 84) from Africa

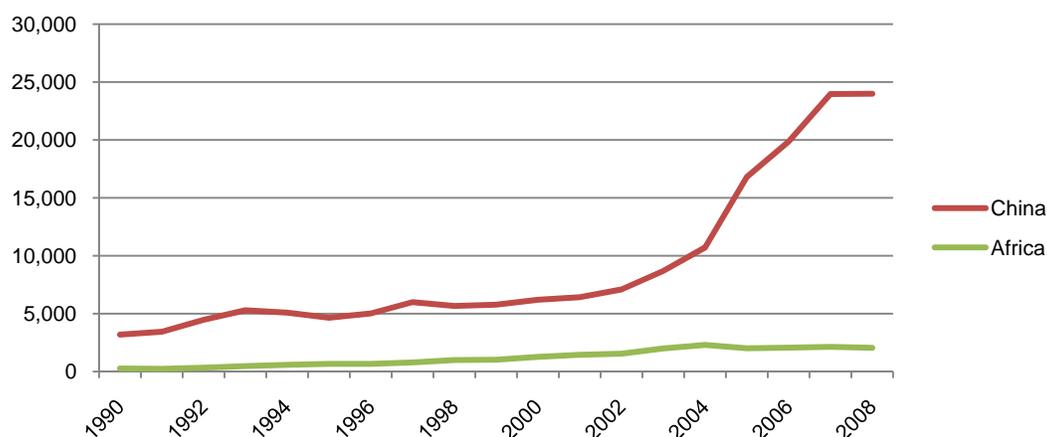
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<sup>15</sup> Analysis of Chinese export data of HS codes 61 and 62 (apparel) for the first three months of 2009 shows that overall exports were down by 5.1 percent in US dollar terms over the first quarter of 2008, with exports to the US actually up by 6.2 percent. Exports to Africa were down by 7.2 percent. Complicating this analysis is the impact of the global financial crisis, currency realignments and perhaps some uncertainty associated with restrictions and the threat of restrictions on Chinese exports to both the US and Africa. We note that first quarter 2009 Chinese exports of HS 61 and 62 to the EU (their main market) were down by 8.9 percent over first quarter 2008, while those to the second market of Japan were up by 9.2 percent.

<sup>16</sup> This SITC data is only roughly comparable with the HS data presented to date, as the SITC classification is related to type of manufacture rather than the HS which is trade-based.

increased by 6.6 percent from 2000-08, somewhat more rapidly than US imports from India but less than half the rate achieved by China. US imports of apparel and clothing from all of Africa totalled about \$2 billion in 2008, or about 7 percent of imports from China and less than imports from Thailand or Cambodia alone (table 6). The main African suppliers included Egypt (\$742m), followed by Lesotho (\$340m), Madagascar (\$280m), Kenya (\$247m), Swaziland (\$125m) and Mauritius (\$102m).

**Figure 1: US apparel imports from China and Africa (\$ millions)**



Source: US Department of Commerce data

**Table 6: US imports of SITC 84, Articles of apparel and clothing**

	Imports 2008		Percentage change (log annual change)	
	\$ million	% share	From 1990	From 2000
<b>World Total</b>	78,893	100.0%	6.3%	2.6%
China	27,205	34.5%	11.4%	14.6%
Vietnam	5,253	6.7%	-	58.9%
Mexico	4,213	5.3%	9.9%	-9.1%
Indonesia	4,158	5.3%	10.4%	8.0%
Bangladesh	3,443	4.4%	11.6%	6.1%
India	3,213	4.1%	9.0%	5.9%
Honduras	2,676	3.4%	17.6%	1.3%
Cambodia	2,376	3.0%	58.5%	13.5%
Thailand	2,133	2.7%	8.3%	0.0%
<b>Africa</b>	<b>1,965</b>	<b>2.5%</b>	<b>11.9%</b>	<b>6.6%</b>

Source: US Department of Commerce

An open question remains as to why Africa, with a modest presence in the US market at the start of the period, was not able to enhance that presence at a time when African economies were expanding and enjoyed a significant tariff preference over China through the AGOA scheme. Asia, and particularly China, have dominated apparel imports by OECD countries despite somewhat higher wages than in many African economies: Cadot and Nasir (2001) calculate that wage costs, adjusted for productivity differences, per shirt produced in Madagascar, Kenya, Ghana, Mozambique, Lesotho ranged from \$0.12 to \$0.19 (in South Africa it was \$0.65), compared to \$0.17 for India and \$0.29 for Chinese export processing zones. Competitive environments differ enormously within Africa; wages vary from relatively high levels of \$3,355 per year in Morocco, \$2,834 in Mauritius and \$2,669 in Tunisia, to the medium level of \$1,611 in South Africa, to a lower level of \$897 in Egypt and only \$429 in Lesotho. And wages are only one factor in the determination of per unit costs of production (although an important one in a low-skilled operation such as garment manufacture), so that China's success in apparel exports is due to other competitive advantages.<sup>17</sup> He (2009) reports that the total cost of a pair of pants made in China is about \$1 while a similar product produced in South Africa costs ten times as much.

China's rapid productivity gains and huge capacity indicate that Africa requires continued trade preferences to develop (Collier and Venables 2007a and Collier 2007). Kaplinsky and Morris (2006) also demonstrate that current trade preferences are needed to maintain the ability of AGOA clothing producers to compete in the US market. However, while trade preferences offer windows of opportunity, they are not lasting solutions. African economies need to use the space offered by trade preferences to improve their ability to compete in global markets.

### ***3.3. China exports and manufactures prices***

China has significantly reduced world prices for manufactures, and especially for wearing apparel and footwear (Villoria, 2009b), thus reducing African import prices. Some evidence for China's impact can be seen in data from South Africa. The average import values for a selection

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<sup>17</sup> This success is arguably beyond wage or exchange rate-related advantages, but largely a function of productivity as a main driver of competitiveness; supported by low energy costs and consistent government spending on infrastructure, which has lowered the cost of logistics for enterprises; as well as economies of scale and integration into regional and global product supply chains. One controversial aspect of Chinese manufacturing is the blurring of lines between government and the private sector which makes it hard to determine the actual cost of production, although we note that China is moving towards a more open market-orientated approach to export manufacturing.

of South Africa's clothing imports dominated by Chinese products (and covering 59 percent of total clothing imports) shows: (i) an increase of 25 percent or higher for all import lines from 1996-2005; and (ii) for most imports, either very modest increases or declines in import prices in both rand and US dollar terms from 1996-2005 (table 7). While who benefited from these limited increases or actual declines in prices is unknown, there is a strong case that price reductions of Chinese clothing imports have resulted in cheaper clothing for consumers.

**Table 7: Average changes in import values for main lines of clothing into South Africa, 1996-2005**

HS code	2005	Description	China %	Ave Change period %		
	\$m		RSA imp	US\$ Ave price	Rand	Imports
6103.4	13.4	Men's knit trousers	77	-4.0	1.0	42.3
6104.6	10.8	Women's knit trousers	82	7.1	-4.4	53.4
6105	12.4	Men's shirts	53	0.7	5.2	25.7
6106	17.9	Women's blouses	69	1.8	5.9	55.5
6111	29.9	Babies knit garments	96	-2.6	2.4	29.8
6203.3	10.8	Men's woven jackets	77	4.8	9.5	27.0
6203.4	70.2	Men's woven trousers	83	-1.3	3.1	27.6
6204.3	12.6	Women woven jackets	80	-2.7	1.3	53.0
6204.5	26.1	Women woven skirts	67	-7.3	-2.9	62.0
6204.6	62.1	Women woven trouser	86	-6.5	-1.5	53.6
6205	27.8	Men's woven shirts	61	1.1	5.6	34.5
6206	25.1	Women woven blouses	60	-15.6	-10.9	28.4
6212.1	10.3	Bras	81	-7.5	-3.0	42.9

Source: Sandrey, 2006

The South African government imposed quotas on clothing and textile imports from China from January 2007. The objective was to protect the South African sector, a sector that hides behind 40 percent tariff barriers but was still unable to compete against burgeoning imports from China and others. Sandrey and Fundira (2008) examine the impact of the first full year of these quotas and find that average prices increased by between 16 percent (cotton fabrics) and 50 percent (female blouses). Thus the quotas were reversing the stable or declining prices previously enjoyed by South African consumers over the previous decade.

China's impact on African manufactures prices (and industrial competition) would be all the more significant if China tends to 'price to market', that is, charge less on its exports to poor

countries than it does on exports to rich countries. The data show a mixed story.<sup>18</sup> Sandrey (2008) finds that the average price of China's exports to the United States was some 13 percent above the global average for 2007 and 16 percent above for 2006, indicating that China may have charged higher prices in that developed market. However, higher average prices could also result if the United States were importing higher-quality goods within these HS 6 lines. By contrast, the average price of Chinese exports at the HS 6 level to South Africa were approximately equal to the world average (for 2007 the figure was slightly above, and for 2006 slightly below), indicating that China was not lowering its export prices, on average, in that developing market. Considering just the clothing exports in HS 61 and 62 and using the more disaggregated HS 8 lines rather than the HS 6 lines, the average price of China's exports to South Africa was nearly three percent below the global average in 2005, perhaps indicating some tendency towards pricing to market. Interestingly, the average price of China's exports to South Africa increased to one percent above the global average for 2007, the first year of the South African quotas, perhaps reflecting increases in prices by Chinese exporters to gain some of the excess profits resulting from trade restrictions.

#### ***3.4. The impact of China's growth on Africa's commodity sector***

Rapid growth in China has boosted global demand for oil and minerals. China consumes about 20% of global aluminium and copper resources, 30% of steel and coal, about half of globally traded iron ore, and is the second largest consumer of oil after the US, importing about one quarter to one fifth of its oil needs from Africa. Rising demand from China helped fuel the boom in commodity prices prior to the global recession. Oil prices peaked at almost \$150 per barrel in mid-2008, and copper prices more than tripled during 2002-08. The rise in prices greatly increased the export revenues of Africa's oil and minerals exporters, and attracted large inflows of capital into resource-rich but also undeveloped regions across Africa.

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<sup>18</sup> The data examined were the commercially obtainable World Trade Atlas (WTA) data for Chinese exports to the world at the HS 6 detailed level.

**Table 8: Select Chinese investment and financing packages into Africa’s commodities**

Year	Country	Resource	Description
2005	Angola	Oil	\$1bn concessional financing initially which has been extended several times; estimated by now to be between \$5.5bn and \$8bn.
2006	Gabon	Iron ore	\$3.5bn total investment in Belinga iron ore deposit: \$790m for mine development; construction of key mining and transport infrastructure; environmental and transparency concerns delaying project
2007	Zambia	Copper	\$800m-\$1bn investment in Chambishi Copperbelt, including copper mine, smelter and Special Economic Zone; investment ongoing
2008	DRC	Copper & cobalt	\$9bn investment in Katanga province: \$3bn mining related and \$6bn transport and social infrastructure; in August 2009 restructured on request of IMF to \$6bn
2008	Liberia	Iron ore	\$2.6bn investment announced in development of Bong iron ore deposit

Source: Authors’ research, 2009

Chinese investments in Africa’s resource sector have been significant. According to UNCTAD, between 1979 and 2000 China’s cumulative resource extraction investments on the continent amounted to only \$188 million, but in recent years China has announced mega-investments amounting to several billions of dollars (table 8). Large amounts of capital for mining infrastructure development and refurbishments (and social projects) have been extended, in return for mining rights and concessions in mineral and energy reserves. Cash-flush China, in combination with the right policies from host African countries, could be the source of much-needed investment and the generation of substantial benefits from Africa’s natural resources.

Resource producers should now position themselves to best harvest and extract the highest returns from the next “wave” of Chinese demand. Unfortunately the nature of resource booms and the nature of resource-rich states’ governments is that there is little incentive to promote diversification, little reinvestment of resource rents into other sectors and generally no proper management of new wealth. Poor governance and rampant rent-seeking have meant that resource producers have been unable to progress up the value chain by exporting more processed goods based on their primary commodity resources (Eifert et al., 2005). South Africa could be an exception, as the country has outlined a strategy for engaging China which features policies to promote greater processing of the country’s primary commodity exports (see box 2).

## **Box 2: Current account imbalances and competitive devaluations**

The trade relationship between many African countries, including South Africa, and China is characterized by exports of raw materials and imports of manufactured goods. China thereby directly competes with the domestic manufacturing sector, with adverse implications for the employment of low skilled workers. Moreover, it is often perceived that China is unfairly competing as this Asian country has an undervalued currency which supports its own exported oriented development strategy.

This trade and exchange rate relationship has a direct impact on the economic policy process. For example, in South Africa - a country with an abundant unskilled laborforce and unemployment of over 25% - there has been political pressures to introduce tariffs on some labor intensive manufacturing products. Indeed, the Congress of SA Trade Unions (Cosatu) has welcomed the recent increase from 40% to 45% in textile tariff as this move is seen as helping to protect local jobs against cheap imports. Some policymakers have even argued that South Africa should follow the Asian countries example and also devalue its currency so as to strengthen the competitiveness of its own manufacturing sector, thereby contributing to a string of competitive devaluations.

More generally, China's pursuit of an undervalued exchange rate has negative impacts on Africa's efforts to promote economic diversification particularly through manufacturing and moving-up the value-added chain. In these circumstances many policymakers fear that Africa will remain "trapped" in the extractive industries sector which are capital, and not labour intensive, even if China's investment is welcome as a contribution to alleviate structural infrastructure bottlenecks.

### ***3.5. Chinese support for African infrastructure***

Greater Chinese investments in Africa's infrastructure should further private sector development. Chinese funding has been directed largely at hydropower and transport projects, with important benefits for industrial productivity, cross-border trade and connectivity to global markets. These investments could play a pivotal role in the promotion of economic diversification in African countries, by facilitating market access and reducing transactions costs. In Zambia, for example, major infrastructure investments are linked to China's strategic interests in copper supplies. Direct investment in the Zambian resources sector by Chinese investors will further boost employment, raise the profits of firms in the resource sector, and increase opportunities in related industries. Inroads into economies like Zambia through investment and the promises of skills and technologies transfers will ensure that China can access vital resources such as copper at the consent of the producing country (Carmody, 2009).

### *3.6. The potential for Chinese support for African manufactures*

Another potential benefit of China's involvement in Africa is its support for export processing zones. Eifert et al (2005) argue that a critical mass of firms is necessary to generate the scale economies, network effects, and spread of technology required for structural change and diversification to manufactures production. Successful industrialisation efforts of countries such as South Korea and Taiwan were based on "surges of investment" coupled with export promotion strategies (Trindade, 2005). But implementing economy-wide reforms to attract greater FDI into manufacturing industries and more value-added exports can be difficult. Thus several countries have chosen to create special geographic regions, known as Export Processing Zones (EPZ), Special Economic Zones (SEZ), industrial zones, or free trade zones, with more liberal policies towards trade and investment and (usually) with significant investments in infrastructure. These zones provide a favourable economic environment for investment in manufacturing and foster the clustering of production facilities of domestic and foreign investors (Din, 1994; Ge, 1999). Many countries in East Asia, Latin America, and the Caribbean have achieved substantial success in promoting manufactured exports through such policies (Graham, 2004). China, for example, established five major SEZs and opened a further 14 coastal cities and three coastal areas to foreign investors between 1979 and 1988 (Ge, 1999).<sup>19</sup>

Unfortunately, attempts by African countries (except Mauritius) to develop such export and investment zones, including the wave of EPZ regulations in southern Africa initiated during the early 1990s (Jauch, 2002), have not been successful. These failures were due to several causes, including a lack of adequate infrastructure, insufficient entrepreneurial capacity, institutional challenges, socio-political aspects such as attitudes and culture, and even investor ignorance (World Bank, 2001).

China has initiated efforts (announced at the third FOCAC summit) to set up five special economic zones in Africa, with more on the drawing board (Edinger, 2008; Davies, 2008), which could make a substantial contribution to industrial development on the continent. The policies governing the zones are likely to differ across countries, although most should offer a more liberal environment for both Chinese and other investors, including tax breaks, customs duty

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<sup>19</sup> While no direct comparison between China's economic growth miracle and Africa's point of departure and industrialization efforts should be drawn, the rollout of SEZs along coastal provinces and cities of China played a significant role in the structural transformation of the country (Davies, 2008). The country experienced with market liberalization through promoting such zones (Interview in Beijing, April 2008).

waivers, less strict labour laws, discounted land, and various services; and significant infrastructure investments, particularly transport and power within the zones and tied into ports and regional markets. In some zones, joint venture partnerships between Chinese and other foreign investors with local counterparts is encouraged. While these zones will assist China with its “going global” policy and create safe havens for Chinese capital<sup>20</sup>, they also represent a great opportunity for African industry to gain access to capital, infrastructure services, and skills and technology transfers, as well as backward (to the country’s hinterland) and forward (to third markets) linkages. Most importantly, the zones are anticipated to boost employment and generate higher and more diversified sources of foreign exchange earnings (World Bank, 2001). Some African economies have more experience with the establishment of EPZ and attracting capital into these zones<sup>21</sup> (see box 3).

### **Box 3: African Special Economic Zones supported by China**

The first zone, announced in February 2007 and referred to as the Multi Facility Economic Zone (MFEZ), is located in the mining area of Chambishi, Kalulushi, in Zambia (Edinger, 2007). The main objective of the MFEZ is to catalyse “industrial and economic development in the manufacturing sector for the purpose of enhancing both domestic and export orientated business”. It is designed to “operate on the principal of value-addition”.<sup>22</sup> The second SEZ is located in Mauritius, near Port Luis. Construction was said to have commenced in October 2007, although progress has been slow. Unlike other Chinese-initiated SEZs in Africa, the zone will focus on the service industry. The Mauritius SEZ is intended to host the regional headquarters of companies in southern and eastern Africa, provide a commodity trade and transit route to markets in East Asia, and serve as a springboard and gateway for Chinese companies to invest on the continent. The limited focus on value-added manufacturing of this zone is likely planned because Mauritius already has achieved considerable success in exporting manufactures.<sup>23</sup>

Most foreign investment in Egypt takes place under the laws which define incentives in SEZs. China’s investment in the Egyptian SEZ in Port of Sokhna (near Suez) began in early 2007. It is hoped that a clustering of Chinese enterprises in the SEZ will encourage integration with global supply chains.<sup>24</sup> The zone is expected to focus on infrastructure, logistics, electronics, ICT, construction, car components and chemicals investments and production. It will also serve as a key bridge between the Middle East and North Africa (MENA) region and SSA, providing access to markets in the MENA region and the EU. Similarly, SEZ developments in Nigeria,

<sup>20</sup> See Davies (2008) for more details on this.

<sup>21</sup> Kenya, Egypt and Mauritius are probably the most proactive countries in Africa establishing such zones (Edinger, 2008).

<sup>22</sup> See Ministry of Commerce, Trade & Industry website

<sup>23</sup> The manufactured exports sector has been dominated by T&C but spans across the whole value chain, with focus on vertical integration within this industry. Significant investment in the industry was channeled previously through mainly Taiwanese firms (Ancharaz, 2008).

<sup>24</sup> See People’s Daily Online (2007)

Uganda, and potentially also Angola, Algeria, Mozambique, Tanzania and Ethiopia, are expected. The zones in Mauritius, Egypt and Nigeria are partially supported by the China-Africa Development Fund (CADFund) (Teng, 2009), which is assisting with zone construction and infrastructure rollouts and supporting investment by Chinese companies.

Limiting reforms designed to attract investment and promote exports to dedicated zones is not a first-best solution to development (Madani, 1999; and Jenkins et al., 1998). Such zones can raise employment and foreign exchange earnings, and where infrastructure and other government services are weak, expanding services in a limited geographical area may be easier and more productive than attempting to expand services throughout the country (World Bank, 2001). Thus such zones may help initiate the process of industrialization, but generally do not result in massive increases in industrialization and growth. Also, the easing of rules that protect workers and limit negative externalities from investment may cause neighbouring countries to lower their own standards, referred to as the “race to the bottom” (Jauch 2002). Such effects were seen in the series of zones established in southern Africa and more recently in some countries attempting to attract Chinese SEZ investment, for example Cape Verde.<sup>25</sup> A focus on SEZs also could limit progress towards regional integration, as countries compete for foreign investment from outside the region.

Another area where China could assist in the diversification of African manufacturing is in tariff preferences. Sandrey (2009) estimates that the average duty assessed on Chinese imports from Africa was 0.83 percent in 2008 (0.64 percent if imports from South Africa are excluded). Combined with Africa’s current commodity-dominated export profile this highlights that the continent already has almost duty-free access to China.<sup>26</sup> However, across the broader spectrum of non-commodity goods, duties on some imports remain high. Importantly, imports of cotton valued at \$315.6 million attracted duties of \$126.2 million (40%), and this means that raw cotton, a crucial input into the Chinese clothing export sector, is contributing 42.5 percent of the total duties assessed against African imports. This highlights the importance of expanding zero-tariff treatment to 95 percent of the products for African Least Developed Countries (LDC), part

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<sup>25</sup> See Afrol News (2007)

<sup>26</sup> This is based on the value of imports from Africa assessed against the Chinese tariff schedule as downloaded from the WTO website.

of the FOCAC engagement, with the result of the continent enjoying additional stimulus to access the Chinese market for manufactured products in particular.<sup>27</sup>

#### **4. Conclusion**

Why has Africa failed to emulate the rapid growth of Asian economies, supported by spectacular increases in manufactured exports? One problem is that Africa's economic policies, governance, and institutions have been far weaker than in many of the successful Asian economies. Moreover, Africa's abundance of natural resources has starved manufacturing sectors of resources, while resource-rich economies (not only in Africa) have generally failed to achieve rapid growth, in part because of weak linkages between the natural resource sector and abundant unskilled labour, and in part because government control of natural resources has encouraged rent-seeking activities rather than productive investment. Africa's limited diversification poses grave threats to development, owing to the volatility of primary commodity prices and the failure to reap the potential gains from economies of scale and productivity advances available in manufactures.

Africa needs to strengthen 'the policy umbrella' through more stable macroeconomic policies, more dependable provision of government services, and expanded infrastructure investments, including support for regional trade (e.g. improved roads and border post management). Regional and multilateral negotiations should address 'tariff escalation', whereby imports of processed goods incur higher tariffs than imports of primary commodities, and should improve the value of tariff preferences by eliminating onerous and unworkable rules of origin. Dedicated geographic zones with less restrictive rules facing investment could support manufactured exports, although the extent to which such zones will further African development is uncertain. Finally, linkages need to be established between tariff and trade policies on the one side, and industrial policies on the other. In some cases (South Africa is the outstanding example), a combination of earlier unilateral liberalisation and bilateral, regional and multilateral agreements have limited the policy space to nurture industrial development.

An examination of many Asian success stories demonstrates that the coordination of trade and industrial policies can be an effective means of promoting development. Many African economies tried to promote industrialization during the 1970s and 1980s with import protection

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<sup>27</sup> However, supply-side constraints in Africa and restrictive Chinese non-tariff barriers such as rules of origin may well undermine the full potential of such an agreement for Africa.

and government subsidies, but with extraordinary dismal results. Perhaps the critical difference between many of the interventionist regimes pursued in Asia and African policies was that the former ensured that favoured industries were exposed to international competition, often by setting export targets, and furthermore the successful Asian economies were (a) more successful in getting the appropriate 'basket' of policies in place and (b) willing to recognise mistakes earlier and sacrifice poorly performing sectors. Whether such Asian-type policies, which involved *inter-alia* tariff protection and subsidies, are possible now with WTO disciplines and greater sensitivity in industrial economies to competition from developing countries is an open question.

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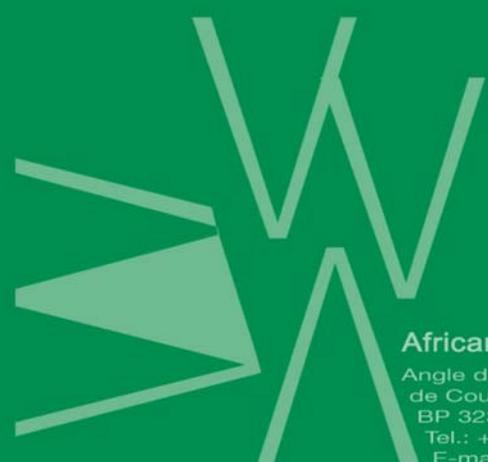
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