

# China and Africa: A Balanced Scorecard?

**The Role of G8 in an Endangered Global Economic and Political Climate**

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# OVERVIEW

1. Contrasting fortunes
2. Positive entries
3. Negative entries
4. Assessment

# 1. Contrasting fortunes

## A. China

- i. Rapidly rising, modernising global power
- ii. Spectacular growth and poverty reduction
- iii. Expanding global footprint

## B. Southern Africa

- i. Marginalized from global economy
- ii. Mired in poverty and chronic socio-political problems

## 2. Positive entries

### A. Analytical Framework

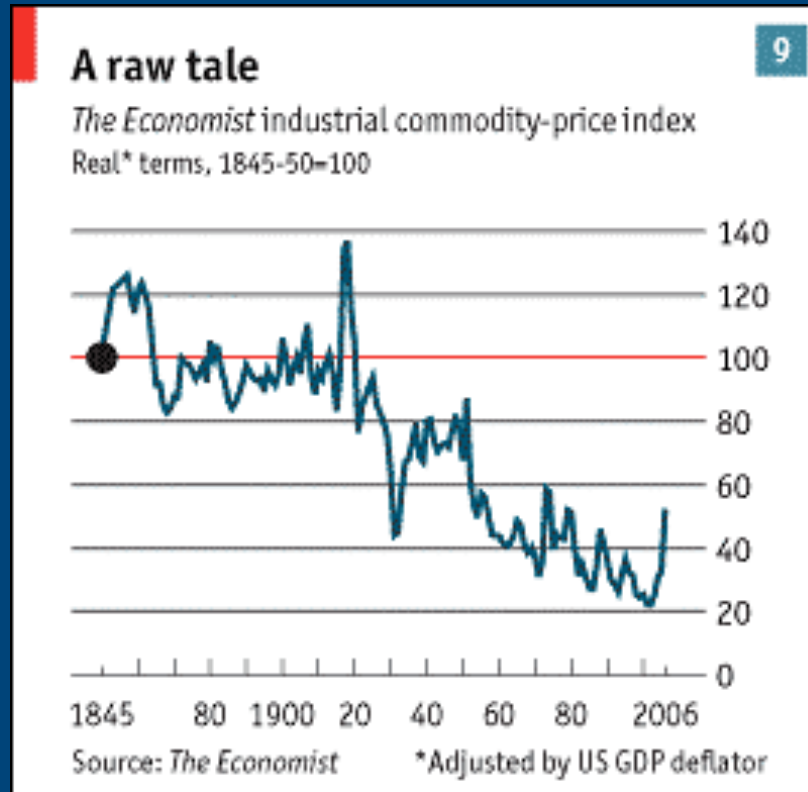
- i. Winners and losers in any economic adjustment process
- ii. Economy-wide approach
- iii. No consideration of particular sub-sectors

# Positive entries

## B. Minerals exports

- i. Basic comparative advantage story
- ii. Positive terms of trade effect (commodity prices)
- iii. Positive for debt management and fragile balance of payments
- iv. Limits to commodity exports (and Chinese demand)?
- v. What about the “Dutch disease”
- vi. Management of resource rents?

# Are commodities prices in a secular upswing?



# Positive entries

## C. Agriculture exports

- i. African comparative advantage
- ii. Constraints:
  - ♣ OECD subsidies and Preferences
  - ♣ Domestic supply-side issues
  - ♣ Developing country protection (G33) including China
- iii. Closer WTO collaboration?
- iv. Opportunities for Chinese investment and export
- v. Limited by Chinese investment in food self-sufficiency (GM)

# The real culprits?



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# Positive entries

## D. Services exports and investment

- i. Chinese FDI footprint matches African development priorities (in theory)
- ii. Core infrastructure services
  - ♣ Telecommunications
  - ♣ Transport
  - ♣ Energy
- iii. Chinese tourism
- iv. Distribution services
- v. SA services exports (finance; IT; media)
  - ♣ Chinese “big bang” liberalization

# And then there is manufacturing...



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### 3. Negative entries (?)

#### A. Cheap manufactured imports

- i. Displace domestic production?
- ii. And exports to third markets?
  - ♣ SA exports to and investment in regional markets
- iii. Implications for labour-absorbing growth paths?
  - ♣ China (and India) are integrating over 2 billion people into the global labour pool – this is and will continue to be a key driver of change worldwide
- iv. Condemned to primary products supplier status?

## Negative entries (?)

- v. But African economies are not competitive in manufactures
- vi. Imports force diversification (ie competition is healthy)
- vii. Some countries have got rich from their resource base
  - ♣ Governance is critical
- viii. What about service-related jobs and agricultural potentials?
- ix. And don't forget consumers!

# Negative entries (?)

## B. Balance of payments

- i. Rapidly growing cheap imports implies balance of payments pressure
- ii. But offset by resource exports
  - ♣ Picture varies between countries
- iii. Bilateral trade deficits are not problems in themselves – it is the overall balance of payments that matters
- iv. And the source of the deficit is critical
  - ♣ Productivity and investment goods
  - ♣ Versus consumer goods
  - ♣ Case-by-case assessment necessary

## 4. Assessment

- A. China's rise poses difficult challenges
- B. But correctly managed the opportunities should outweigh the threats
- C. This raises the troubling governance question:
  - i. Does China's African safari reinforce the (partly) positive democratic trend of recent years?
  - ii. Will increased resource exports increase factionalism amongst African elites?

# Assessment

## D. Harnessing China to African governance agenda:

- i. Reinvest resource rents
- ii. Build supply-side capacities
- iii. Build African institutions to effectively govern trade and investment
- iv. Negotiate with China from a stronger, better-informed platform

# Assessment

## E. Mitigate China's negative impacts

### i. Environment

- ♣ Major infrastructure projects
- ♣ Resource stripping

### ii. Aid conditionalities

- i. DAC guidelines: "ethical constraints" versus "flexibilities"
- ii. Reform of Breton Woods Institutions