



Africa's Silk Road

CHINA AND INDIA'S NEW ECONOMIC FRONTIER



 THE WORLD BANK

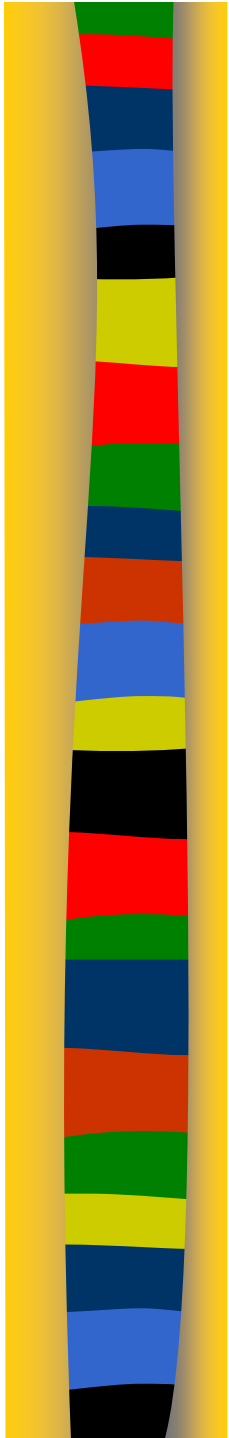
HARRY G. BROADMAN



Background

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

... where Africa has the potential to export



Main Questions Addressed by the Study

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



Focuses on Four Key Factors

- “At-the-border” trade and investment policies:

Policies affecting market access (tariffs and NTBs); FDI policy regimes; and bilateral, regional and multilateral trade agreements.

- “Behind-the-border” (domestic) market conditions:

Business environment; competitiveness of market structure; quality of market institutions; and supply constraints such as poor infrastructure and skill shortages

- “Between-the-border” trade facilitation factors

Cross-border trade facilitating logistical and transport regimes; quantity and quality of overseas market information; impacts of tech. standards; and role of migration.

- Complementarities between investment and trade

Extent to which investment and trade flows leverage one another; effects of trade-investment complementarities on scale of production and integration across markets; participation in global production networks and value chains; and spillover effects of transfer of technology.



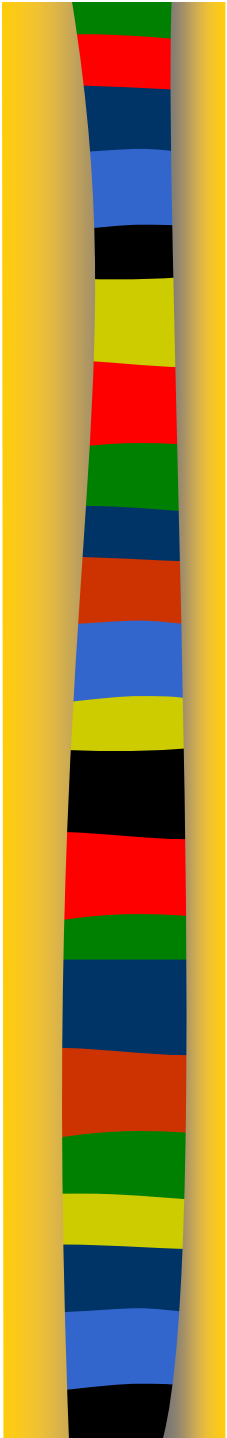
Summary of Study's Key Messages

- China and India's "new-found" interest in trade and investment with Africa presents a significant opportunity for growth and international integration of Africa
- China and India's South-South commerce with Africa is about far more than oil, and is opening the way for Africa to become a processor of commodities as well as a competitive supplier of goods and services to these Asian countries.
- Growing number of Chinese and Indian firms in Africa are on a global scale with world class-technologies; they are fostering global *and* regional (Pan-African) integration of African businesses.
- But there are major asymmetries in this South-South commerce; without addressing them, potential benefits will not materialize; e.g., while Asia is a significant part of Africa's trade flows, Africa is a very small part of Asia's trade
- Trade policy reforms appear less important than reforms 'behind the border', 'between the border', and actions that leverage trade-FDI linkages
- For Africa—as well as Asia—to benefit, *all* sides must pursue reforms

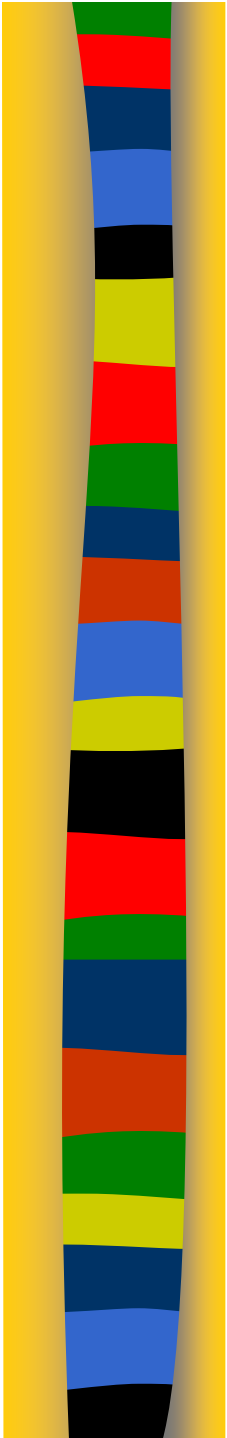


Data & Methodology

- Analysis of new firm-level survey data on 450 African firms with Chinese and/or Indian affiliation in four countries—Ghana, Senegal, South Africa, and Tanzania (May 2006)
- Analysis of originally developed 16 individual business case studies carried out in the field in the four countries, focusing on four sectors—construction, food, textiles and apparel, and general manufacturing (May 2006)
- “Gravity model” analysis of African bilateral trade flows worldwide to assess barriers to trade with China and India
- Also
 - Analysis of existing firm-level micro data from World Bank Investment Climate Assessments (ICAs) and data from World Bank Doing Business in African and Asian countries, special emphasis given to China and India
 - Analysis of trade data from UN COMTRADE, UNCTAD TRAINS, and IMF Direction of Trade
 - Country-specific qualitative data from existing resources, incl. DTIS



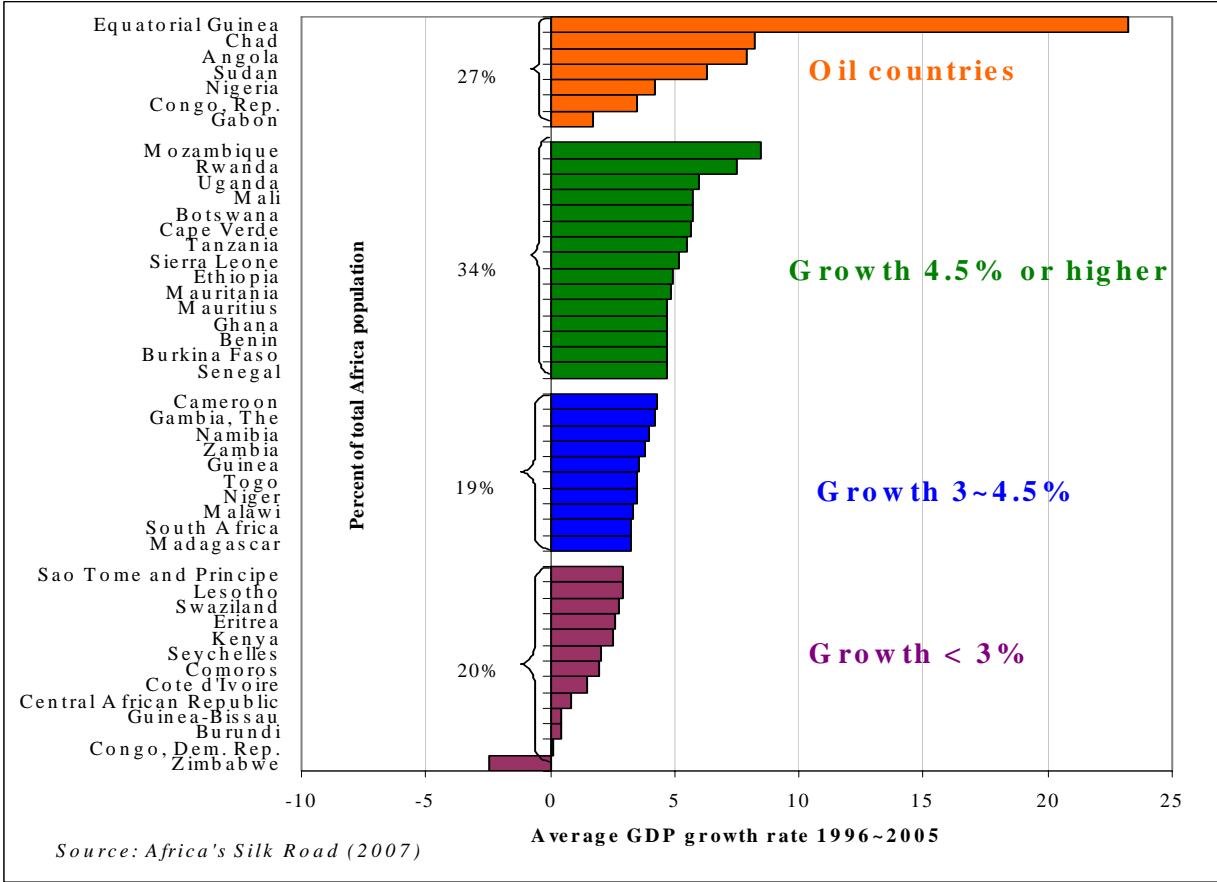
Summary of Principal Findings



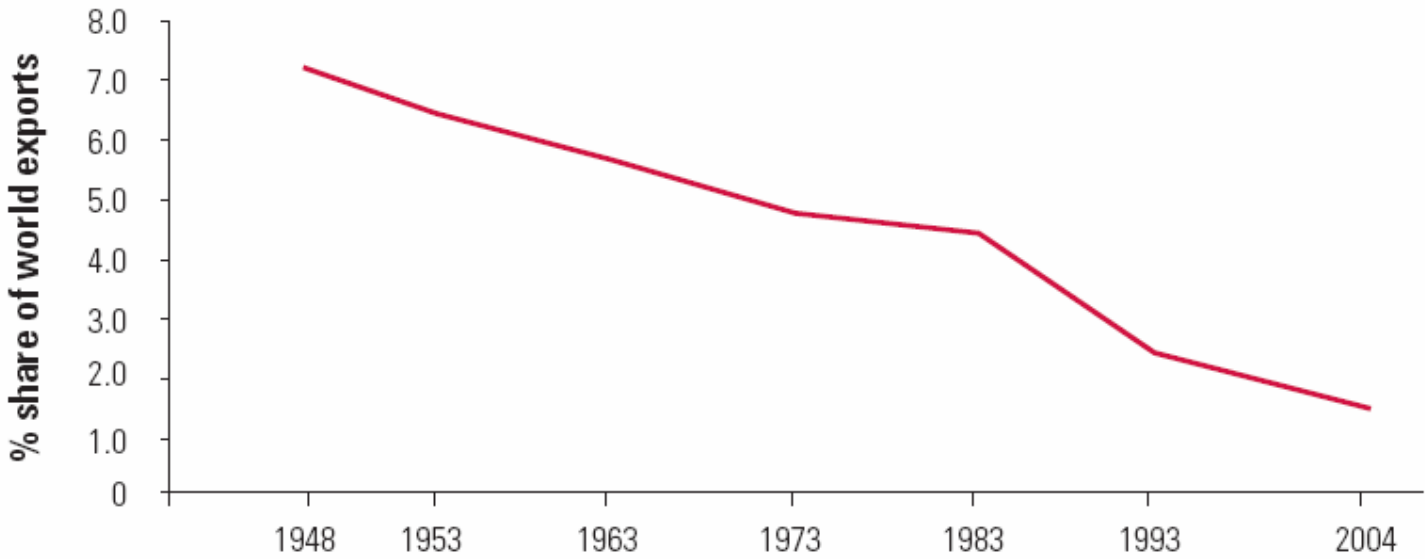
1. Africa in the Global Economy

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

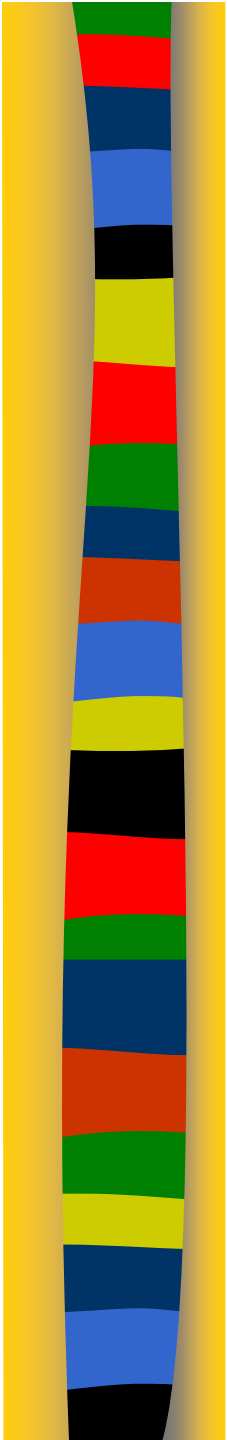
1/3 population in non-oil countries with growth at least 4.5%
1/5 population in non-oil countries with growth under 3.0%



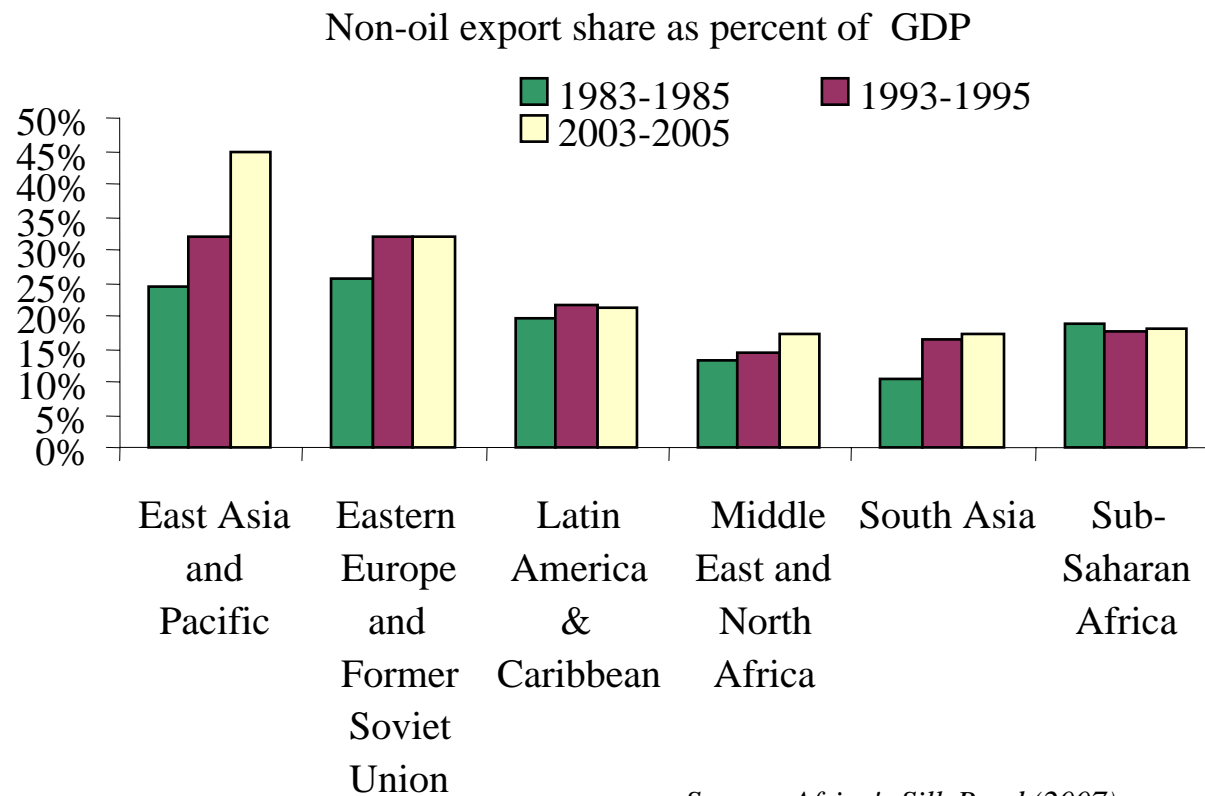
But Africa's share of world exports has been declining



Source: Africa's Silk Road (2007)

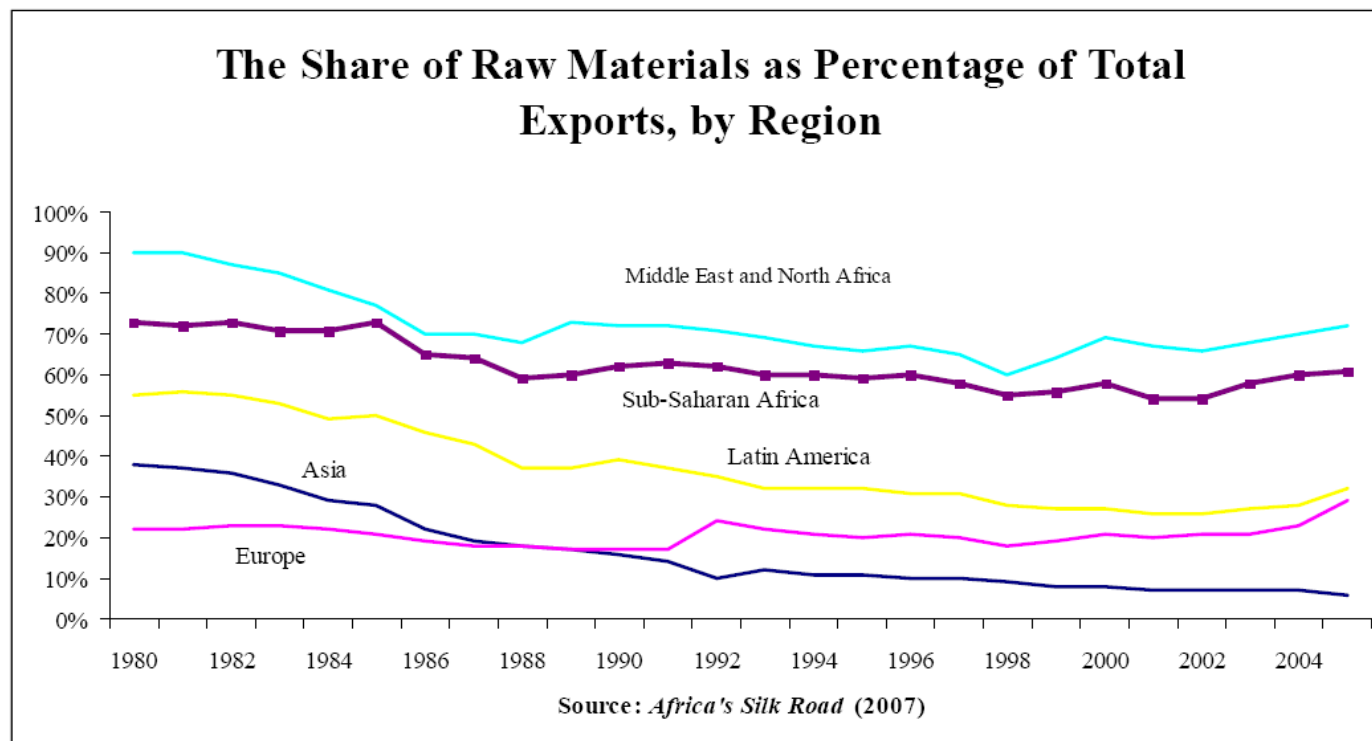


Africa is Virtually the Only Region in the World that Has Not Increased its Share of Non-Oil Exports

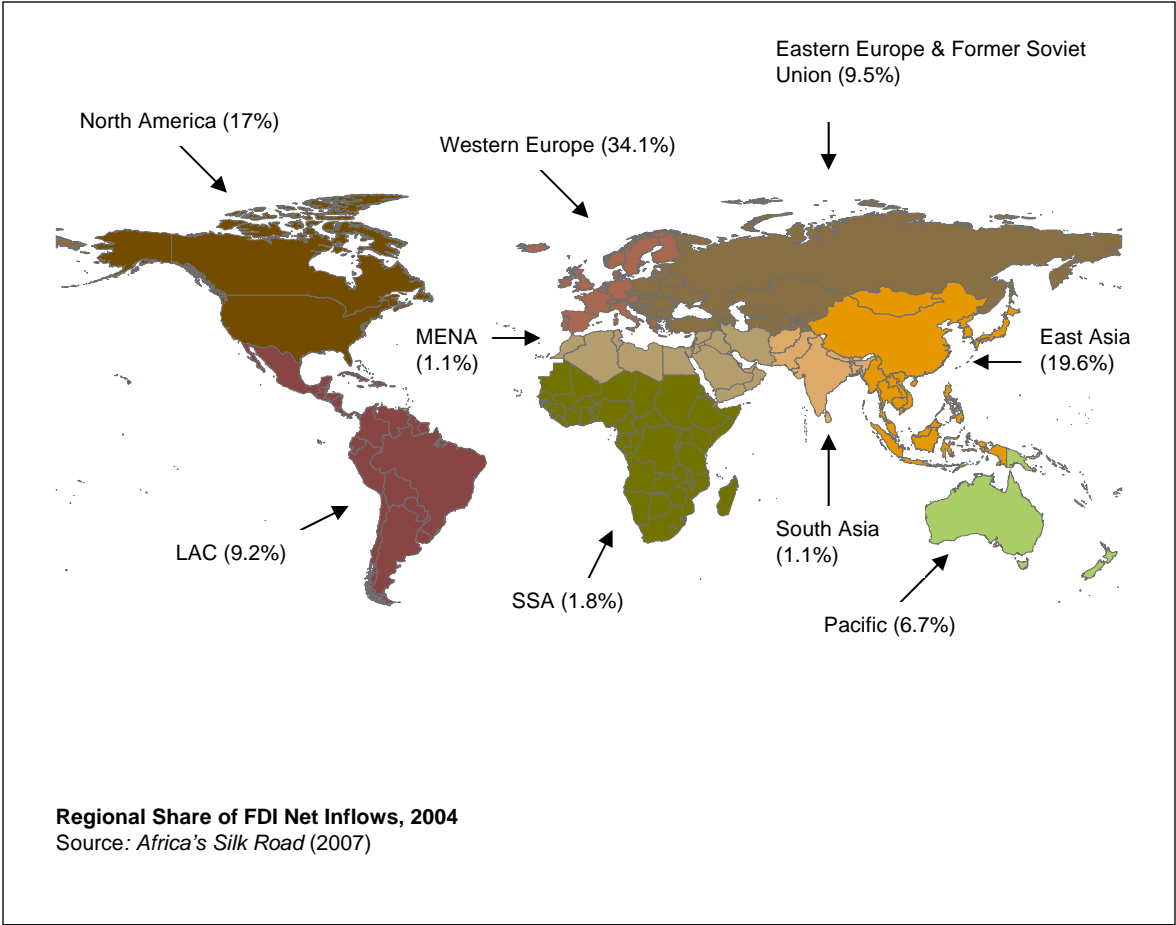


Source: Africa's Silk Road (2007)

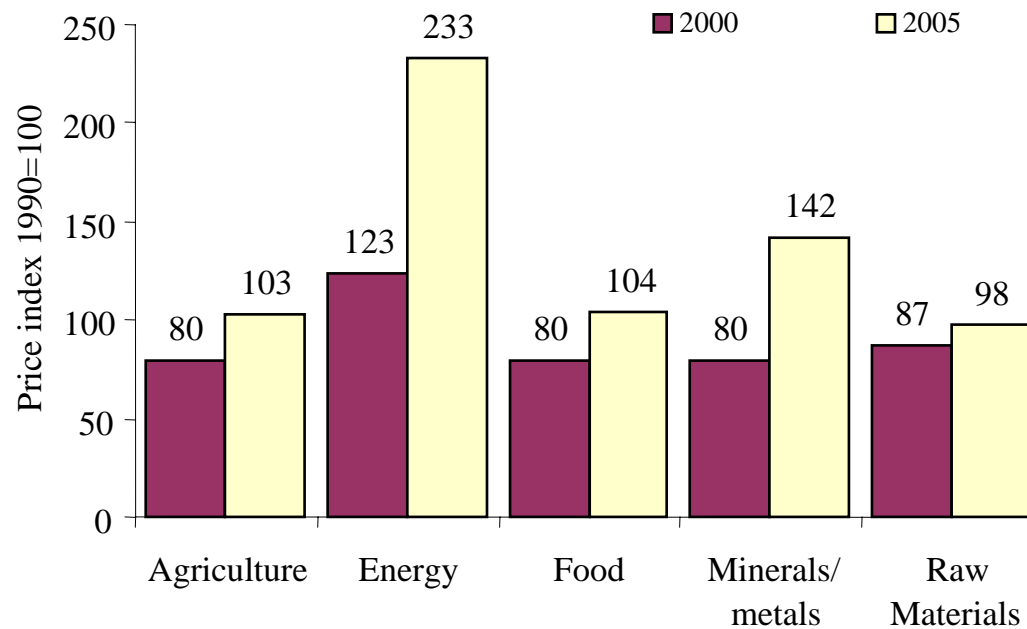
Africa's Exports Are Still In Raw Form, Resulting in Little Value-Added Being Extracted on the Continent



Africa accounts for 1.8 percent of global FDI flows



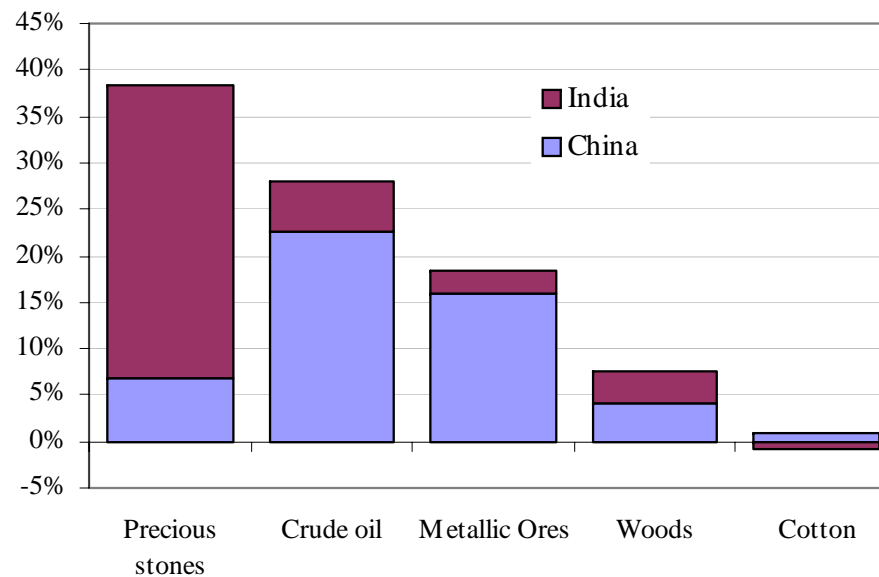
Prices Have Risen for Many of Africa's Major Export Commodities, Not Only Oil



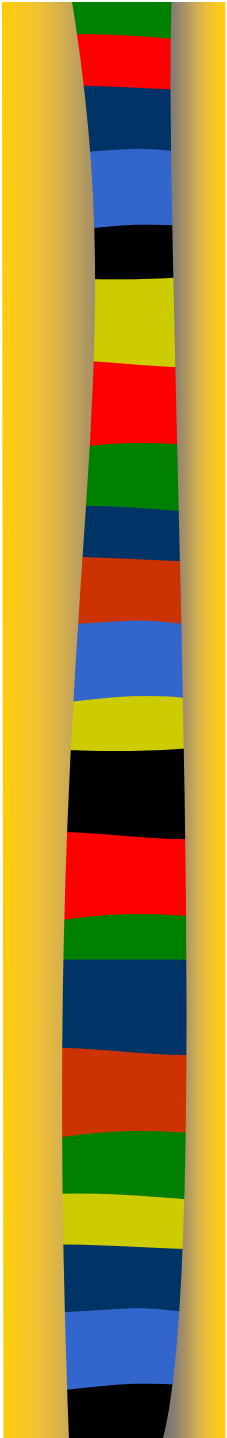
Source: Africa's Silk Road (2007)

China and India's Contribution to Global Commodity Demand

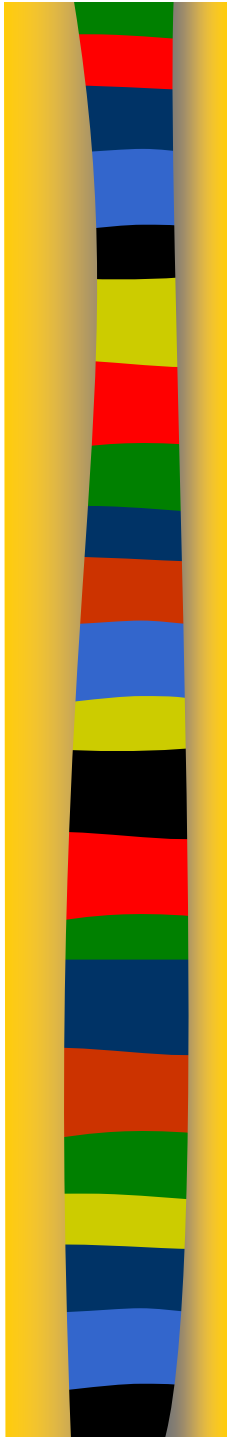
Percent contribution of China and India to the growth of world imports of selected commodities, 2000-2004



Source: Africa's Silk Road (2007)



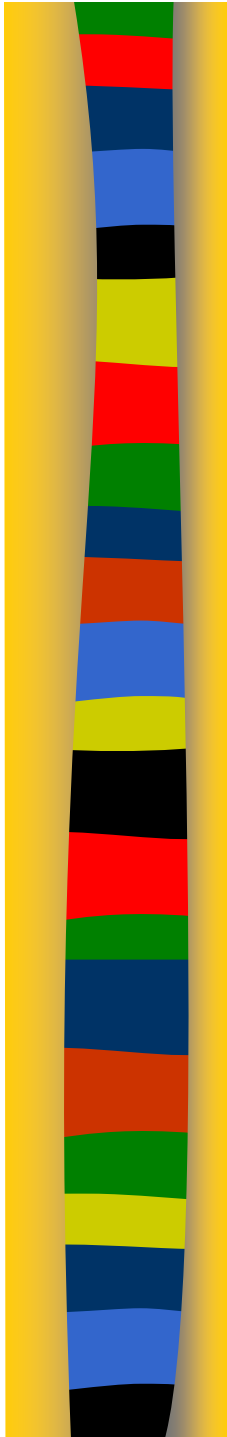
2. Country-Level Trade and Investment Patterns



Key Trends & Observed Patterns

Country-Level Trade and Investment Patterns

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



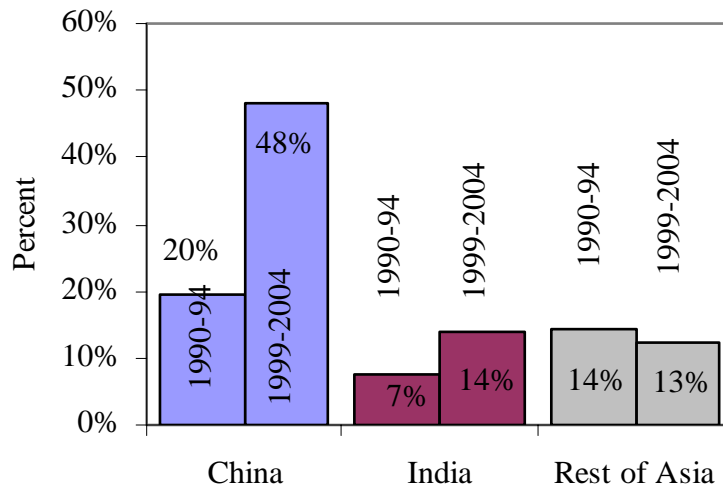
Key Trends & Observed Patterns (cont'd)

*Country-Level Trade and
Investment Patterns*

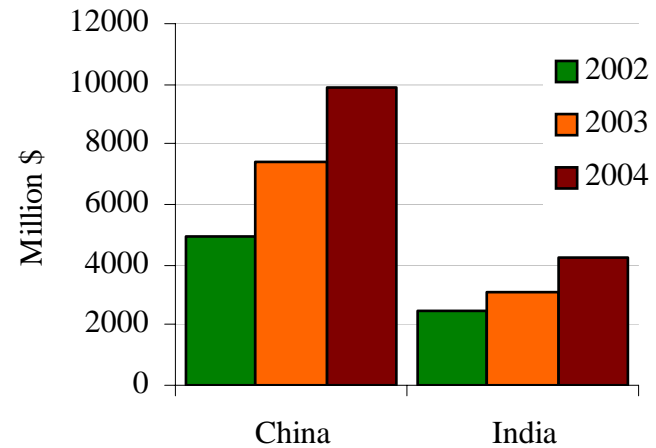
- China and India --- though still only 13% of all of Africa's exports -- have been one of the most rapidly growing destination markets: 1.7 times the overall growth for African exports
- As between India and China, it is China that is the most dynamic segment: Africa's exports to China grew by 48% annually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

Steady, Dramatic Rise of China and India as Destinations/Sources of African Exports/Imports

Average annual merchandise export growth rate, Africa to Asia

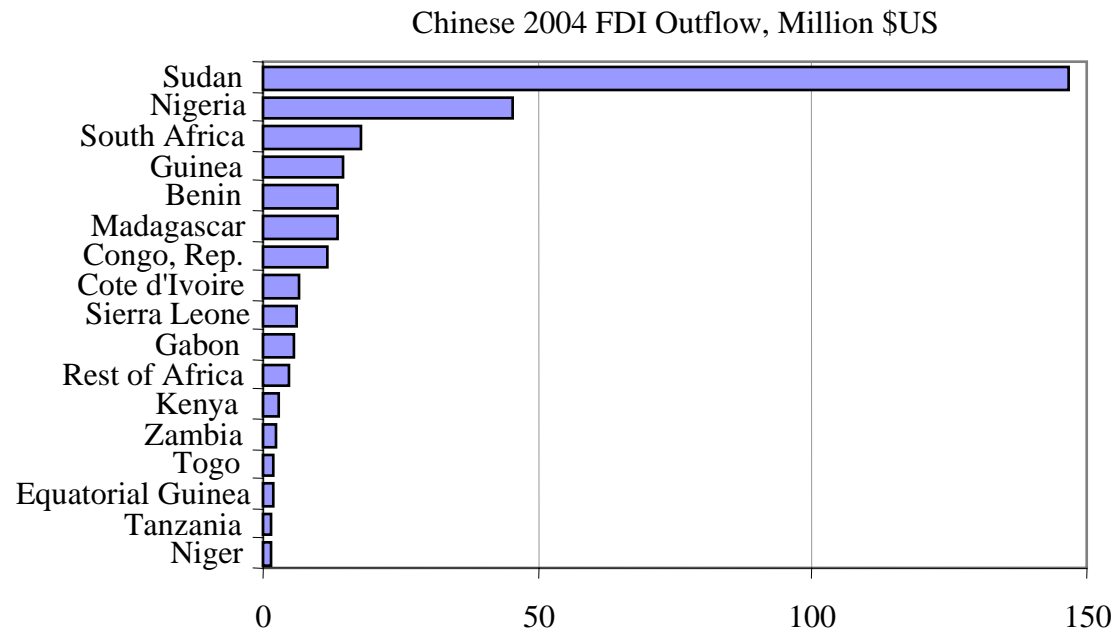


Africa's Merchandise Imports from China and India

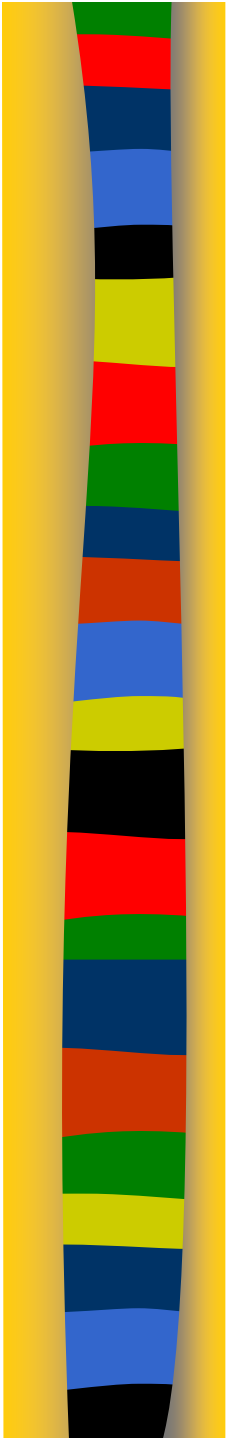


Source: Africa's Silk Road (2007)

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



Source: *Africa's Silk Road* (2007)



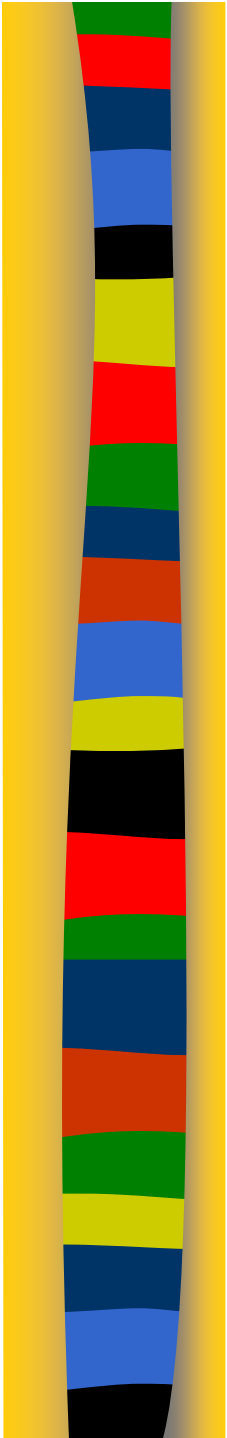
3. Determinants: Role of Various Policies

What Determines Bilateral African-Asian Trade Flows?

Relative Roles of ‘At-the-Border’, ‘Behind-the-Border’, and ‘Between-the-Border’ Factors

| | | All Merchandise Trade | | Manufactured Trade | |
|-----------------------------------|---|-----------------------|----------------|--------------------|----------------|
| | | Exp. from Africa | Imp. to Africa | Exp. from Africa | Imp. to Africa |
| Formal Trade Policies | Importer Trade Restrictiveness | n.s. | n.s. | – | n.s. |
| | Regional Trade Agreement | + | + | + | n.s. |
| | Preferential Market Access | n.s. | n.s. | + | n.s. |
| Between-the-border factors | Customs Procedure - Exporter | – | n.s. | – | n.s. |
| | Customs Procedure – Importer | + | n.s. | n.s. | n.s. |
| | Internet Access – Exporter | + | + | + | + |
| | Internet Access – Importer | n.s. | n.s. | n.s. | n.s. |
| | Port Quality – Exporter | – | + | – | + |
| | Port Quality – Importer | + | + | + | + |
| Behind-the-border factors | Domestic Business Procedure – Exporter | – | n.s. | – | n.s. |
| | Power Infrastructure Quality – Exporter | n.s. | n.s. | + | n.s. |

Note: Only the signs of significant coefficients are shown (level of significance above 10%). “n.s.” represents a coefficient not statistically significant.
 Source: *Africa’s Silk Road* (2007)



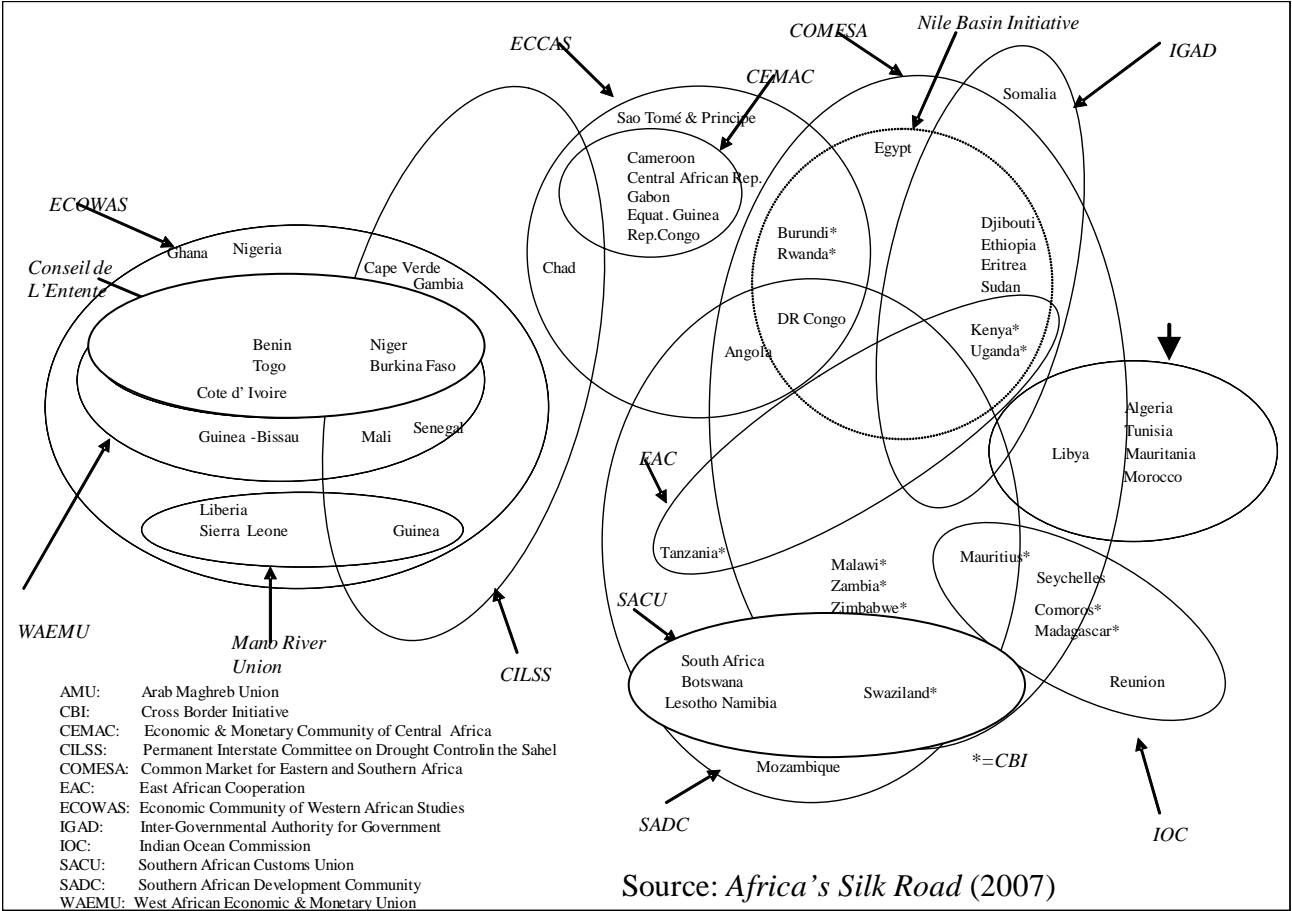
‘At-the-Border’ Policies

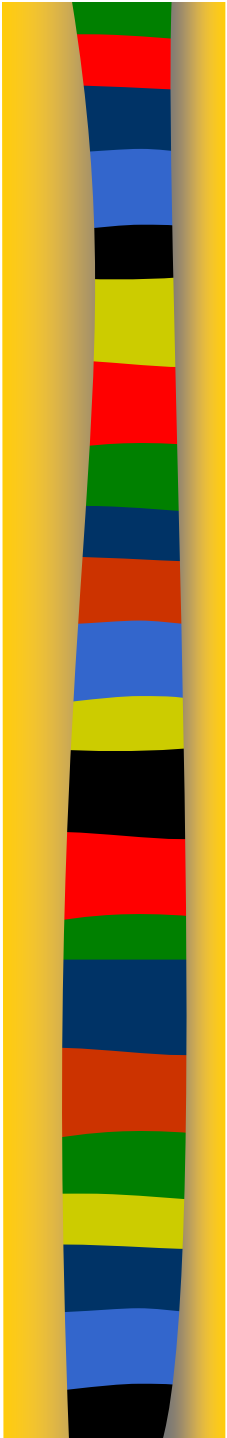
Africa's Leading Exports face Escalating Tariffs in China and India

| | | Africa Imports | | | |
|-------|------------------------------------|----------------|-------|-------|--------------|
| | | China | India | Japan | Asia Average |
| 211 | Raw hides | 6.5 | 0.1 | 0 | 0.8 |
| 611 | Leather | 8.8 | 14.7 | 0.7 | 4.6 |
| 612 | Manufactures leather | 14.6 | 15 | 1.9 | 7.9 |
| 222 | Oil seeds | 5 | 30 | 0.4 | 2 |
| 423 | Vegetable oils | 10 | 45 | - | 27.7 |
| 07111 | Coffee, not roasted | 8 | 100 | 0 | 2.3 |
| 07112 | Coffee, roasted | 15 | 30 | 9.1 | 9.1 |
| 0721 | Cocoa beans, raw | 8 | 30 | 0 | 2.8 |
| 0722 | Cocoa powder | 15 | - | - | 0.2 |
| 333 | Petrol.oils, crude | 0 | - | - | 0.2 |
| 334 | Pertroleum products, refined | 7.4 | 15 | 2.1 | 0.3 |
| 66722 | Diamonds, sorted | 3 | - | 0 | 2.2 |
| 66729 | Diamonds, cut | 8 | 15 | 0 | 6 |
| 6673 | Oth. Precious/semi-precious stones | 7.3 | 15 | 0 | 9 |
| 897 | Jewelry | 26.8 | 15 | 0.9 | 15.7 |
| 263 | Cotton | 27 | 10 | 0 | 14.8 |
| 6513 | Cotton yarn | 5 | 15 | - | 5 |
| 652 | Cotton fabrics, woven | 10 | 15 | 1 | 5.6 |
| 84512 | Jerseys, etc. of cotton | 14 | - | 5.7 | 6.8 |
| 8462 | Under garments, knitted | 14.1 | 15 | 6.9 | 5.2 |

Note: Darker shades represent higher levels of processing.
Source: Africa's Silk Road (2007)

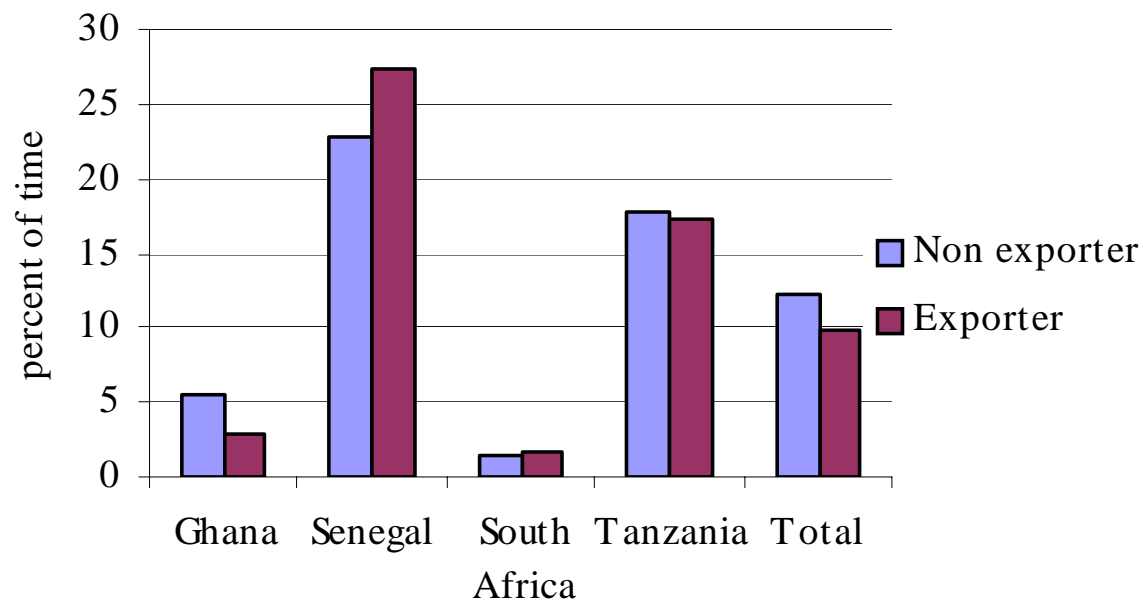
The 'Spaghetti Bowl' of African Regional Trade Agreements Is Not Investor Friendly





‘Behind-the-Border’ Factors

Exporters in Africa Tend to be Those Who Face Less Interruption in Electricity Service from the Public Grid



Source: Africa's Silk Road (2007)

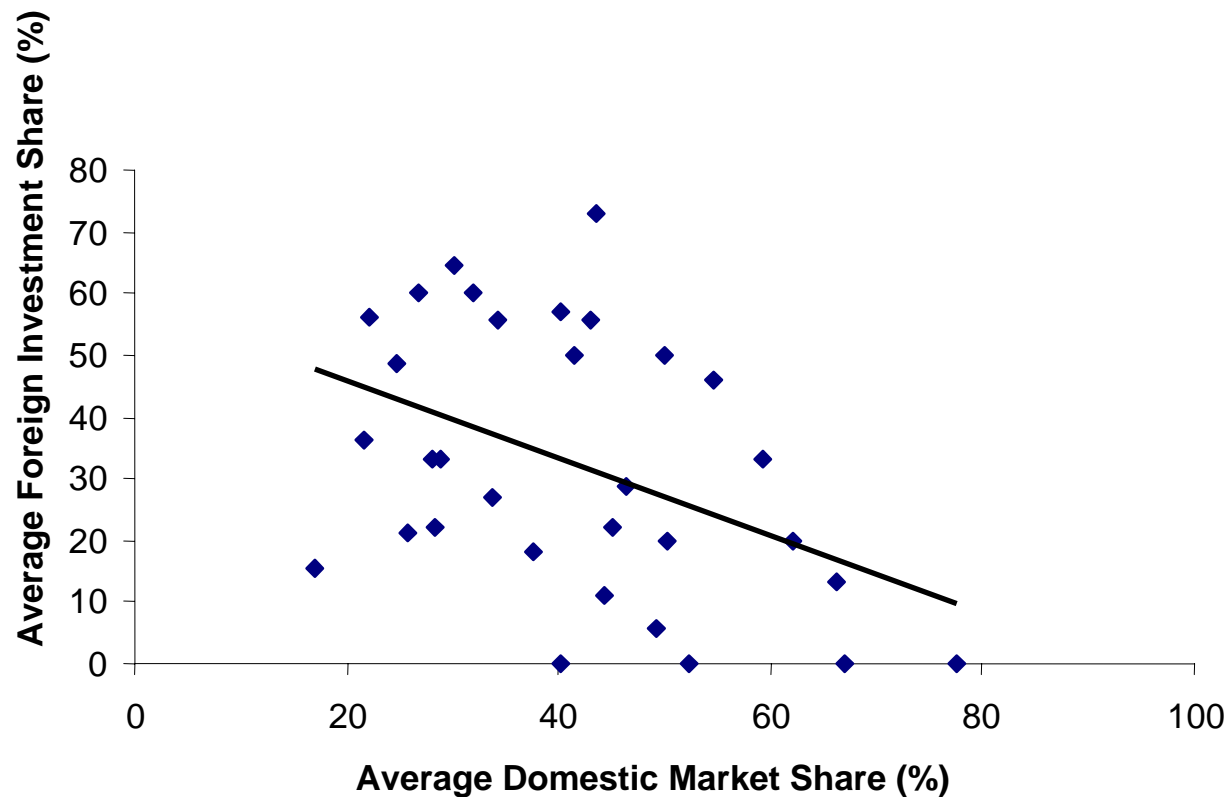
Dominant Firms Characterize the Market Structure in African Industries

Average Domestic Market Share, by Sector and by Country (Percent)

| Sector | Ghana | Senegal | South Africa | Tanzania | All Four Countries |
|------------------------------------|--------------|----------------|---------------------|-----------------|---------------------------|
| Agriculture and Food | 32 | 49 | 52 | 41 | 42 |
| Chemicals | 22 | 78 | 62 | 46 | 47 |
| Construction | 28 | 28 | 40 | 26 | 31 |
| Machinery | 34 | 67 | 43 | 38 | 41 |
| Non-construction Services | 22 | 55 | 34 | 25 | 36 |
| Nondurables | 27 | 50 | 45 | 40 | 39 |
| Non-oil Minerals and Metals | 30 | 50 | 59 | 29 | 36 |
| Textiles | 17 | 66 | 44 | 43 | 44 |
| All Sectors | 26 | 57 | 42 | 34 | 39 |

Source: Africa's Silk Road (2007)

Does the Entry of Chinese and Indian Foreign Investors Foster Competition in African Markets?

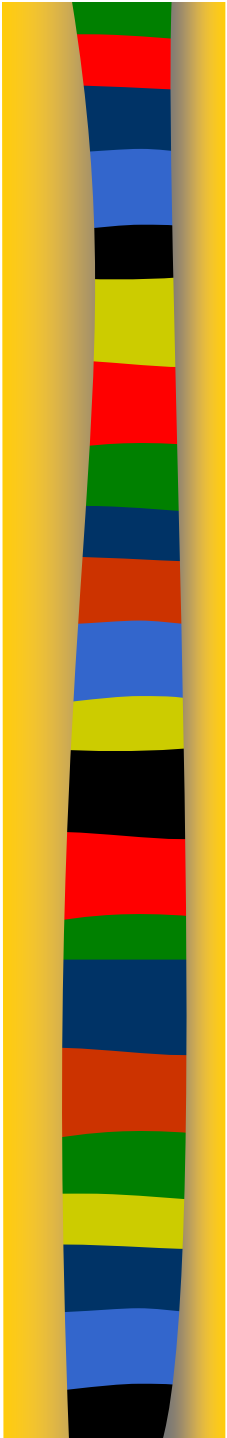


Source: *Africa's Silk Road* (2007)

Factor Markets in Africa Need Greater Flexibility

| Country | Rigidity of Employment Index | Hiring Cost (% of Salary) | Firing Cost (weeks of wages) |
|-------------------|------------------------------|---------------------------|------------------------------|
| S.S. African Avg. | 53.1 | 11.8 | 53.4 |
| Ghana | 34 | 12.5 | 24.9 |
| Senegal | 64 | 23 | 38.3 |
| South Africa | 52 | 2.6 | 37.5 |
| Tanzania | 69 | 16 | 38.4 |
| East Asia Avg. | 26.2 | 8.8 | 44.2 |
| China | 30 | 30 | 90 |
| South Asia Avg. | 39.9 | 5.1 | 75 |
| India | 62 | 12.3 | 79 |

Source: *Africa's Silk Road* (2007)



‘Between-the-Border’ Factors

Trade Facilitation Infrastructure and Institutions: High Transactions Costs

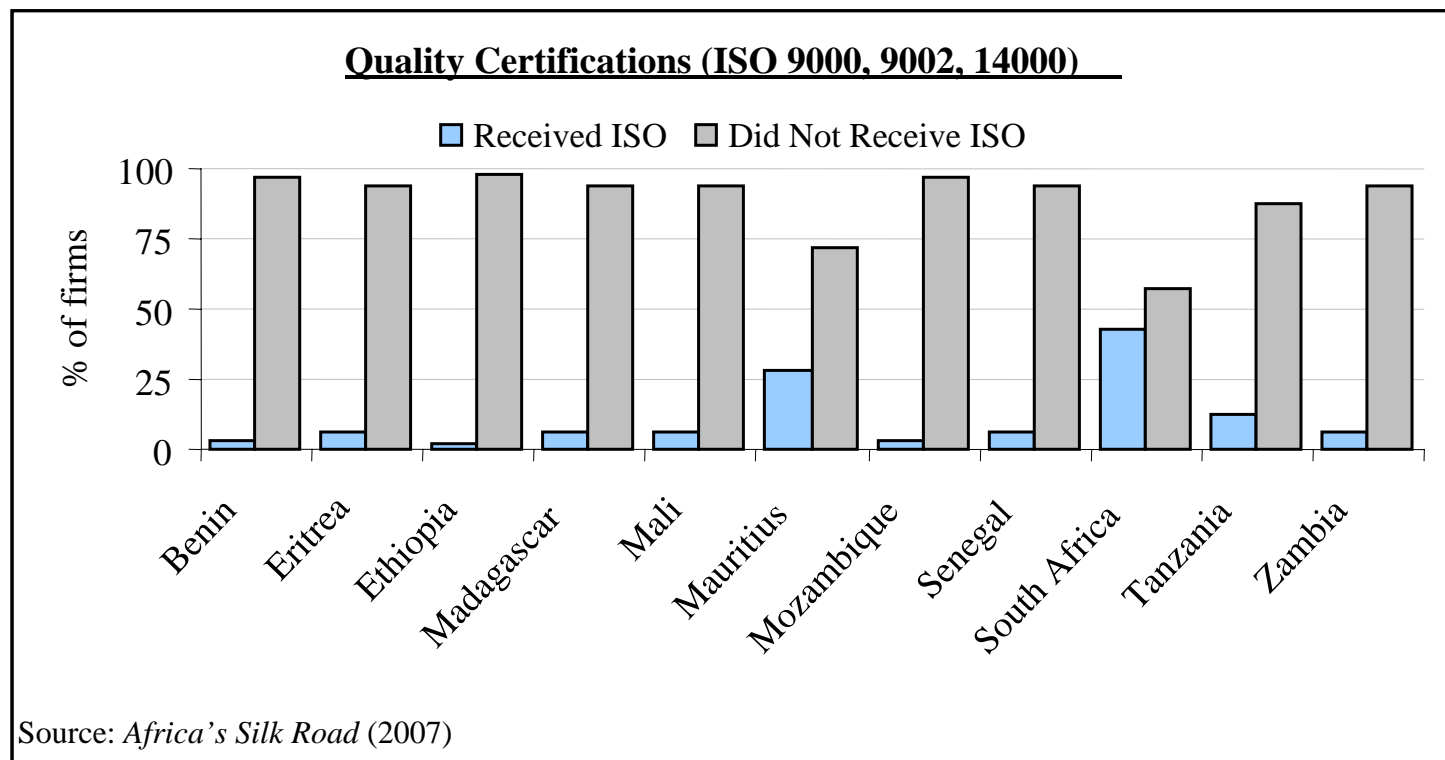
Port and Customs Inefficiencies

| | Export | | | Import | | |
|--|-------------------------------|--------------------------------|------------------------|-------------------------------|--------------------------------|------------------------|
| | Documents for export (number) | Signatures for export (number) | Time for export (days) | Documents for import (number) | Signatures for import (number) | Time for import (days) |
| Sub-Saharan Africa Average | 8.5 | 18.9 | 48.6 | 12.8 | 29.9 | 60.5 |
| Ghana | 6 | 11 | 47 | 13 | 13 | 55 |
| Senegal | 6 | 8 | 23 | 10 | 12 | 26 |
| South Africa | 5 | 7 | 31 | 9 | 9 | 34 |
| Tanzania | 7 | 10 | 30 | 13 | 16 | 51 |
| East Asia & Pacific Average | 7.1 | 7.2 | 25.8 | 10.3 | 9 | 28.6 |
| China | 6 | 7 | 20 | 11 | 8 | 24 |
| South Asia Average | 8.1 | 12.1 | 33.7 | 12.8 | 24 | 46.5 |
| India | 10 | 22 | 36 | 15 | 27 | 43 |

Source: Africa's Silk Road (2007)

Imperfections in the Market for Information: High Transactions Costs

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

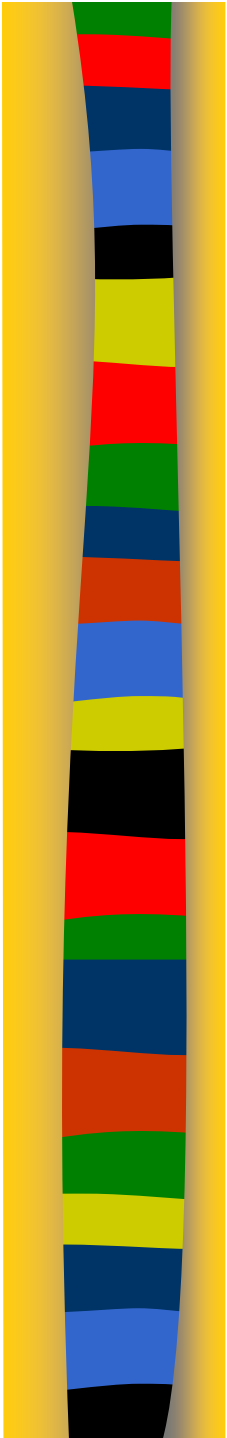


Remedying Information Market Imperfections

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

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

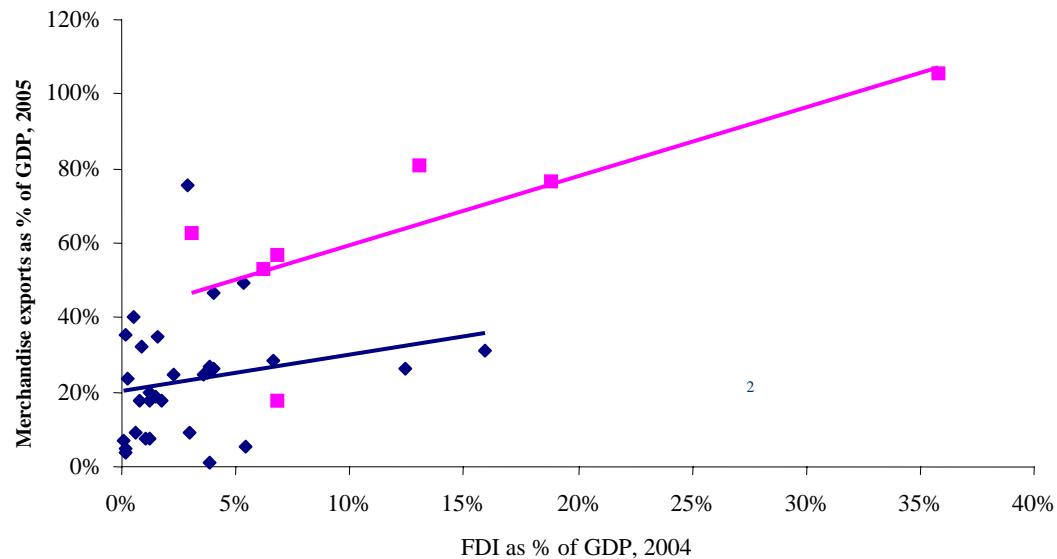
Source: Africa's Silk Road (2007)



Complementarities Between Trade & Investment

Are African FDI and Exports Complements?

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



Note: Oil countries include Angola, Chad, Republic of Congo, Equatorial Guinea, Nigeria, and Sudan.

Source: *Africa's Silk Road* (2007).

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

| | African | Chinese | Indian | European |
|----------------|---------|---------|--------|----------|
| Domestic | 8 | 1 | 2 | 3 |
| Other Africa | 2 | 4 | 1 | 8 |
| Outside Africa | 2 | 16 | 5 | 58 |

Note: Data pertain to median values. *Source: Africa's Silk Road (2007)*

Distribution of Output Sales by Destination Market and Nationality

| | African | Chinese | Indian | European |
|------------------|---------|---------|--------|----------|
| Domestic | 85% | 78% | 89% | 76% |
| Other Africa | 8% | 14% | 10% | 11% |
| Europe | 4% | 0% | 0% | 1% |
| North America | 1% | 0% | 0% | 0% |
| India | 0% | 0% | 0% | 0% |
| Other South Asia | 0% | 1% | 0% | 0% |
| China | 0% | 3% | 0% | 0% |
| Other East Asia | 0% | 0% | 0% | 2% |
| Other | 1% | 1% | 1% | 2% |

Note: Data pertain to 2005 mean annual sales.

Source: *Africa's Silk Road* (2007)

Purchases of New Machinery by Import Origin and Firm Nationality

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

Note: Data pertain to 2005 median values. Source: *Africa's Silk Road* (2007)

Distribution of Material Input Purchases by Origin Market and Nationality

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

Note: Data pertain to 2005 median annual purchases. *Source: Africa's Silk Road (2007)*

Extent of Vertical Integration by Nationality

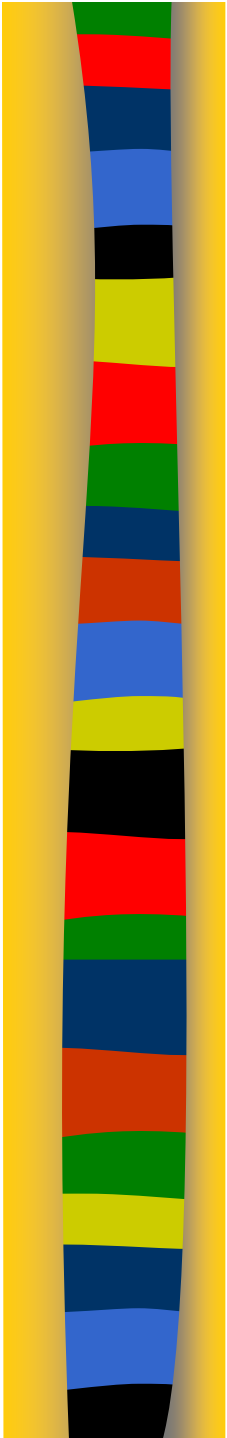
| | African | Chinese | Indian | European |
|---|---------|---------|--------|----------|
| Output Sales to Parent Firm or Affiliate | 9% | 19% | 10% | 14% |
| Input Purchases from Parent Firm or Affiliate | 3% | 23% | 9% | 15% |

Note: Data pertain to 2005 median values. *Source: Africa's Silk Road (2007)*

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

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

Note: Pertains to sales to private firms. Data pertain to 2005 median values. *Source: Africa's Silk Road (2007)*

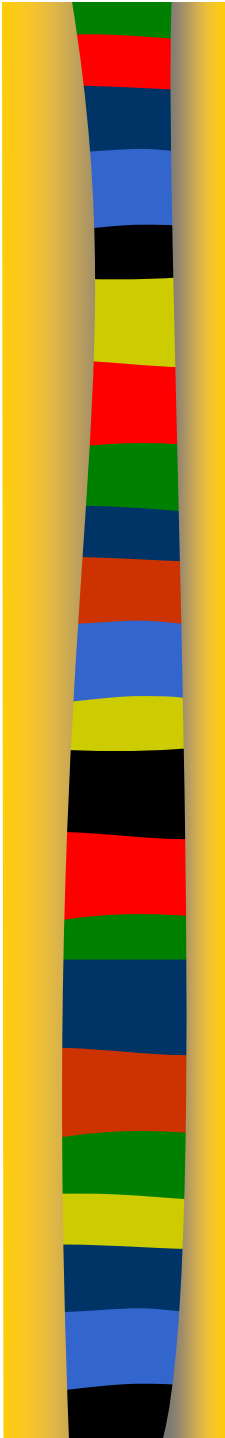


4. Policy Implications



Principles for Reform

- “One-size-fits-all” policy reforms highly inappropriate: significant heterogeneity among the 47 SSA countries
 - Reforms should be designed to take into account country-specific circumstances
 - Affects not only the actual contours of actions to be taken, but also speed and sequencing of implementation
- Reforms of formal trade and investment policies are the traditional starting point of negotiations on international commercial relations; hence, here we focus on them first.
 - But following this convention should not be interpreted as assigning greater importance to these reforms
 - Quite the contrary: “at-the-border” policies are less binding than “behind-the-border” and “between-the-border” factors and actions to capitalize on FDI-trade linkages



“At-the-Border” Policy Reforms (1)

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



“At-the-Border” Policy Reforms (2)

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



Beyond “At-the-Border” Policy Reforms (1)

“Behind-the-Border Reforms”

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



Beyond “At-the-Border” Policy Reforms (2)

“Behind-the-Border Reforms” (cont’d)

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



Beyond “At-the-Border” Policy Reforms (3)

“Between-the-Border” Reforms

- *Primarily for all African countries:* Further development of trade facilitation infrastructure for integration into the global market as well as regional integration within Africa, including:
 - improvement and modernization of ports, road, and rail transport
 - Improvement and modernization of telecommunication/IT capacity.

- *Primarily for all African countries:* Customs reform through:
 - Improving coordination among border-related agencies
 - Simplify customs procedures and make customs codes rule-based, transparent and commercially-oriented
 - Introduce the use of IT into the customs system



Beyond “At-the-Border” Policy Reforms (4)

“Between-the-Border” Reforms (cont’d)

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



Beyond “At-the-Border” Policy Reforms (5)

Reforms to Enhance Trade-Investment Complementarities

- *Most African countries:* With suitable transition periods and tailored to country-specific circumstances, bringing regimes governing FDI in line with international best practice:
 - Adhering to “national treatment” for foreign investors
 - Prohibiting the imposition of new and/or phasing out the existing TRIMs such as local content measures
 - Providing for binding international arbitration for investor-state disputes



Beyond “At-the-Border” Policy Reforms (6)

Reforms to Enhance Trade-Investment Complementarities (cont’d)

- *All African countries:* Deregulation of services, including implementation of market-reinforcing reform of regulatory procedures and rules
- *All African countries:* Enhance flexibility in capital markets
- *All African countries:* Strengthening training and secondary and post-secondary educational programs for workers and managers



“Division of Labor” for Policy Actions (1)

For International Community (Bilateral and Multilateral Donors):

- Provide TA to support institutional capacity building in African countries in priority areas:
 - Governance reforms
 - Trade facilitation
 - Technical standards
 - Customs regime improvement
 - Harmonization of RTAs



“Division of Labor” for Policy Actions (2)

For African, Chinese and Indian Governments

- The bulk of the reform agenda lies in their hands
- Trade policy reforms through:
 - Reducing tariff and non-tariff barriers (*C.I.A.*)
 - Eliminating tariff escalation (*C.I.*)
 - Removing disincentives to exporting (*A.*)
 - Pursuing WTO accession (for non-members) (*A.*)
 - Rationalizing, harmonizing, and modernizing existing RTAs (*A.*)
- For Africa, majority of reforms are beyond “at-the-border” policies:
 - Enhance domestic competition (*A.*)
 - Foster labor market flexibility (*A.*)
 - Improve trade facilitation mechanisms (*A.*)
 - Liberalize services sectors (*A.*)
 - Improve investment climate to attract foreign investors (*A.*)